

**NEW AND REFUNDING ISSUE
BOOK-ENTRY ONLY**

RATINGS:
Moody's: Aaa; Standard & Poor's: AAA
See "RATINGS" herein

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, under existing laws, interest on the Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, under existing laws, interest on the Bonds is exempt from income taxation in the State of Indiana, except for the Indiana financial institutions tax. See "TAX MATTERS" and Appendix E herein.

\$35,550,000
INDIANA BOND BANK
COMMON SCHOOL FUND
ADVANCEMENT
PURCHASE REFUNDING BONDS,
SERIES 2003 A

\$107,895,000
INDIANA BOND BANK
COMMON SCHOOL FUND
ADVANCEMENT
PURCHASE FUNDING BONDS,
SERIES 2003 B

Dated Date: As of Delivery

Due: As Shown Herein.

The Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A (the "Series 2003 A Bonds"), and the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the "Series 2003 B Bonds" and, together with the Series 2003 A Bonds, the "Bonds"), are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of \$5,000 and integral multiples thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Bonds. Interest on the Bonds is payable on February 1 and August 1 of each year commencing August 1, 2003, and such interest, together with the principal of the Bonds, will be paid directly to DTC by Fifth Third Bank, Indiana, as trustee (the "Trustee"), under an Indenture of Trust dated as of July 1, 2003 (the "Indenture"), as described herein, so long as DTC or its nominee is the registered owner of the Bonds. The Indiana Bond Bank (the "Bond Bank") may provide for payment of interest to any holder of Bonds in amounts aggregating \$1,000,000 or more by wire transfer or other method which is acceptable to the Trustee and the Bondholder. The final disbursement of such payments to the Beneficial Owner of the Bonds will be the responsibility of the DTC Direct Participants and the Indirect Participants, all as defined and more fully described herein under "THE BONDS — Book-Entry-Only System."

Payment of the principal of, and interest on, the Bonds, as the same become due and payable (other than by reason of optional redemption) is to be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "BOND INSURANCE."



The Series 2003 A Bonds are being issued by the Bond Bank for the principal purpose of refunding the Bond Bank's Common School Fund Advancement Purchase Funding Bonds of 1993, originally dated August 26, 1993, and currently outstanding in the aggregate principal amount of \$34,940,000 (the "1993 Bonds"). The Series 2003 B Bonds are being issued by the Bond Bank for the principal purpose of providing funds to purchase, pursuant to the terms of the Advancement Acquisition and Administration Agreement (as more particularly described herein) (the "Acquisition Agreement"), all or a portion of certain agreements (the "2003 Agreements") evidencing the right to make deductions from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to repay certain advancements (the "Advancements") previously made from the State Common School Fund to certain Indiana school corporations (the "School Corporations") to finance the construction of school facilities and the purchase of school equipment. Certain agreements acquired with the proceeds of the 1993 Bonds (the "1993 Agreements" and, together with the 2003 Agreements, the "Agreements") will be transferred to and administered under the Acquisition Agreement in connection with the refunding and defeasance of the 1993 Bonds. See "THE PURCHASE AND TRANSFER OF THE AGREEMENTS."

The Series 2003 B Bonds maturing on and after February 1, 2014, are subject to optional redemption prior to maturity on any date on and after August 1, 2013, at the face amount thereof plus accrued interest to the date of redemption. The Series 2003 A Bonds are not subject to optional redemption prior to maturity. See "THE BONDS — Optional Redemption."

The Bonds are payable from amounts deducted by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") from school tuition support payments appropriated by the General Assembly of the State to School Corporations and available to repay the Advancements (including Advancements made in connection with the 1993 Agreements) or, if such funds are not adequate, from amounts deducted from other funds appropriated by the General Assembly to such School Corporations and available for such purpose (such amounts referred to collectively herein as "Advancement Payments"), and are secured by the Agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE OTHER SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE STATE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by its General Counsel for the Program, Bingham McHale LLP, Indianapolis, Indiana, and for the Underwriters by their counsel, Baker & Daniels, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about July 1, 2003.

RBC DAIN RAUSCHER
J.J.B. HILLIARD, W.L. LYONS LEGG MASON WOOD WALKER, INC. SBK-BROOKS INVESTMENT CORP.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

June 12, 2003

MATURITY SCHEDULE

\$35,550,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE REFUNDING BONDS, SERIES 2003 A

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
8/1/2003	\$2,690,000	2.000%	0.983%	2/1/2008	\$1,870,000	5.000%	2.030%
2/1/2004	\$3,935,000	2.000%	1.020%	8/1/2008	\$1,660,000	2.500%	2.080%
8/1/2004	\$3,775,000	2.500%	1.060%	2/1/2009	\$1,385,000	3.000%	2.320%
2/1/2005	\$3,445,000	5.000%	1.180%	8/1/2009	\$1,250,000	2.500%	2.340%
8/1/2005	\$3,165,000	2.000%	1.230%	2/1/2010	\$ 835,000	3.000%	2.630%
2/1/2006	\$2,885,000	5.000%	1.390%	8/1/2010	\$ 680,000	3.000%	2.650%
8/1/2006	\$2,705,000	2.000%	1.440%	2/1/2011	\$ 525,000	3.000%	2.840%
2/1/2007	\$2,425,000	5.000%	1.730%	8/1/2011	\$ 275,000	3.000%	2.860%
8/1/2007	\$2,045,000	2.000%	1.780%				

\$107,895,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS, SERIES 2003 B

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
2/1/2005	\$ 405,000	2.000%	1.200%	2/1/2013	\$5,990,000	5.000%	3.080%
8/1/2005	\$ 395,000	2.000%	1.250%	8/1/2013	\$6,075,000	5.000%	3.100%
2/1/2006	\$ 150,000	2.000%	1.410%	2/1/2014*	\$6,150,000	4.750%	112.806
8/1/2006	\$ 145,000	2.000%	1.460%	8/1/2014*	\$6,975,000	5.000%	114.940
2/1/2007	\$ 135,000	2.000%	1.760%	2/1/2015*	\$7,075,000	5.000%	113.559
8/1/2007	\$2,375,000	5.000%	1.780%	8/1/2015*	\$7,260,000	5.000%	113.559
2/1/2008	\$2,455,000	5.000%	2.030%	2/1/2016*	\$3,135,000	5.000%	112.287
8/1/2008	\$2,440,000	5.000%	2.080%	8/1/2016*	\$2,795,000	5.000%	112.287
2/1/2009	\$2,470,000	5.000%	2.320%	2/1/2017*	\$2,820,000	5.000%	111.300
8/1/2009	\$3,920,000	5.000%	2.340%	8/1/2017*	\$2,845,000	5.000%	111.300
2/1/2010	\$3,960,000	5.000%	2.600%	2/1/2018*	\$1,895,000	5.000%	110.411
8/1/2010	\$5,025,000	5.000%	2.630%	8/1/2018*	\$1,915,000	5.000%	110.411
2/1/2011	\$5,095,000	5.000%	2.810%	2/1/2019*	\$1,940,000	5.000%	109.531
8/1/2011	\$6,135,000	5.000%	2.840%	8/1/2019*	\$2,190,000	5.000%	109.531
2/1/2012	\$6,015,000	5.000%	2.950%	2/1/2020*	\$1,635,000	5.000%	108.660
8/1/2012	\$6,080,000	5.000%	2.970%				

*Priced to par call on August 1, 2013

REGARDING USE OF THIS OFFICIAL STATEMENT

The information set forth herein has been obtained from the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the Indiana State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office, The Depository Trust Company, MBIA Insurance Corporation and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the Indiana State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office, The Depository Trust Company or MBIA Insurance Corporation since the date hereof.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH AND AS A PART OF THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE INDIANA BOND BANK OR BY THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS, THE SECURITY FOR THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Information set forth in this SUMMARY STATEMENT is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors. Capitalized terms as used herein and not otherwise defined are defined in Appendix D.

SUMMARY STATEMENT

Description:	Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A (the “Series 2003 A Bonds”). Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the “Series 2003 B Bonds” and, together with the Series 2003 A Bonds, the “Bonds”).
Principal Amount:	Series 2003 A Bonds: \$35,550,000. Series 2003 B Bonds: \$107,895,000.
Denominations:	\$5,000 and integral multiples thereof.
Dated Date:	Date of Delivery of the Bonds.
Interest and Principal Payments:	Interest on the Bonds is payable semiannually February 1 and August 1, of each year, commencing August 1, 2003. Principal of the Series 2003 A Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2003, through August 1, 2011, inclusive. Principal of the Series 2003 B Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2005, through February 1, 2020, inclusive.
Form:	The Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York. See “THE BONDS – Book-Entry-Only System.”
Optional Redemption:	The Series 2003 B Bonds maturing on and after February 1, 2014, are subject to optional redemption prior to maturity on any date on and after August 1, 2013, at the face amount thereof plus accrued interest to the date of redemption. The Series 2003 A Bonds are not subject to optional redemption.
Authority for Issuance:	IC 5-1.5, IC 21-1-5 and the Indenture of Trust between the Bond Bank and Fifth Third Bank, Indiana, as trustee, dated as of July 1, 2003.
Use of Proceeds:	The Series 2003 A Bonds will be issued by the Bond Bank principally to refund and defease the 1993 Bonds and to pay the costs of issuing the Series 2003 A Bonds. The Series 2003 B Bonds will be issued by the Bond Bank principally to provide funds for the purchase of the 2003 Agreements and to pay the costs of issuance of the Series 2003 B Bonds. The 2003 Agreements have been selected by the Bond Bank from outstanding Advancements heretofore made to School Corporations from the Common School Fund. The 2003 Agreements selected for purchase by the Bond Bank and the interest rates, principal balances and maturity dates of such Agreements are set forth in Appendix A hereto. The Bond Bank intends to cause the transfer of the 1993 Agreements to the Acquisition Agreement and to purchase and pay for the 2003 Agreements to be acquired thereunder on the date of closing and to deliver the Agreements (or evidence of such transfer or acquisition of a portion of the contract rights thereunder) to the Trustee on the date of closing. See “THE PURCHASE AND TRANSFER OF THE AGREEMENTS” and APPENDIX A.

Security:

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

Insurance:

Payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation simultaneously with the issuance of the Bonds. See "BOND INSURANCE."

Continuing Disclosure:

As long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased all as more fully set forth in the Undertaking), the State has agreed to provide or cause to be provided through the Bond Bank, as dissemination agent, information specified in subsections (b)(5)(i) and (b)(5)(ii) of Rule 15c2-12 of the Securities and Exchange Commission. The State has agreed to provide such information for distribution to each nationally recognized municipal securities information repository or in certain instances to the Municipal Securities Rulemaking Board, and to any state information depository designated by the State.

TABLE OF CONTENTS

INTRODUCTION	1
THE INDIANA BOND BANK.....	2
THE STATE OF INDIANA AND THE INDIANA BOND BANK	5
BOND INSURANCE	6
STATE BOARD OF EDUCATION.....	8
STATE DEPARTMENT OF EDUCATION.....	8
STATE BOARD OF FINANCE	8
STATE BUDGET AGENCY	9
THE COMMON SCHOOL FUND	9
THE PURCHASE AND TRANSFER OF THE AGREEMENTS	10
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	10
THE BONDS.....	12
ESTIMATED SOURCES AND USES OF FUNDS	15
OPERATION OF FUNDS AND ACCOUNTS	15
THE BONDS AS LEGAL INVESTMENTS	17
LITIGATION	17
TAX MATTERS	17
AMORTIZABLE BOND PREMIUM.....	18
LEGAL MATTERS	18
UNDERWRITING	19
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	19
CONTINUING DISCLOSURE.....	19
RATINGS.....	21
MISCELLANEOUS.....	21
APPENDIX A LIST OF AGREEMENTS TO BE ACQUIRED OR ADMINISTERED	
UNDER THE ACQUISITION AGREEMENT.....	A-1
APPENDIX B FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA.....	B-1
APPENDIX C SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	C-1
APPENDIX D DEFINITIONS	D-1
APPENDIX E FORM OF BOND COUNSEL OPINION	E-1
APPENDIX F SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	F-1
APPENDIX G SUMMARY OF CERTAIN PROVISIONS OF THE ACQUISITION AGREEMENT	G-1

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INDIANA BOND BANK

\$35,550,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE REFUNDING BONDS, SERIES 2003 A

\$107,895,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS, SERIES 2003 B

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the “Bond Bank”) of \$35,550,000 Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A (the “Series 2003 A Bonds”), and \$107,895,000 Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the “Series 2003 B Bonds” and, together with the Series 2003 A Bonds, the “Bonds”). The Bonds are being issued pursuant to certain provisions of IC 21-1-5 and IC 5-1.5, as amended (the “Act”). Capitalized terms not otherwise defined are used herein as defined in Appendix D.

The Bonds are to be issued under and secured by an Indenture of Trust dated as of July 1, 2003 (the “Indenture”), between the Bond Bank and Fifth Third Bank, Indiana, as trustee (the “Trustee”). The principal of, premium, if any, and interest on the Bonds are payable from moneys deducted from school tuition support payments appropriated by the General Assembly (the “General Assembly”) of the State of Indiana (the “State”) to the school corporations within the State listed in Appendix A (collectively, the “School Corporations”), and available for such purpose or from other funds appropriated by the General Assembly to the School Corporations and available for such purpose (collectively, the “Advancement Payments”). The Advancement Payments are collected by the State Board of Education (the “Board of Education”) and the State Board of Finance (the “Board of Finance”) in accordance with IC 21-1-5-7 and pursuant to certain agreements (“Agreements”) entered into between the Board of Education and the School Corporations and thereafter paid over to the Bond Bank pursuant to the Acquisition Agreement as more fully described herein. See “THE PURCHASE AND TRANSFER OF THE AGREEMENTS.”

The Series 2003 A Bonds are being issued principally to refund and defease the Bond Bank’s Common School Fund Advancement Purchase Funding Bonds of 1993, originally dated August 26, 1993, and currently outstanding in the aggregate principal amount of \$34,940,000 (the “1993 Bonds”). The Series 2003 B Bonds are being issued principally to finance the purchase by the Bond Bank of certain agreements (the “2003 Agreements”) pursuant to an Advancement Acquisition and Administration Agreement (the “Acquisition Agreement”) by and among the Board of Finance, the Treasurer of the State, the Board of Education and the Bond Bank to be dated as of the date of delivery of the Bonds. Simultaneously with the issuance of the Series 2003 A Bonds and the defeasance of the 1993 Bonds, Agreements securing the 1993 Bonds (the “1993 Agreements”) will be transferred to and thereafter administered under the Acquisition Agreement.

The Acquisition Agreement constitutes a valid and enforceable contractual obligation, but is not a debt of the Board of Education, the Board of Finance, the Treasurer of the State or the State within the meaning of any constitutional prohibition against State indebtedness. The proceeds of the Series 2003 B Bonds, other than proceeds applied to the costs of issuance of the Series 2003 B Bonds, will be used by the Bond Bank to purchase 2003 Agreements (including accrued interest on the 2003 Agreements) and either to make a deposit in the State’s Common School Fund or as otherwise permitted by law. See “THE COMMON SCHOOL FUND.” The Bond Bank expects to purchase and pay for the 2003 Agreements on the day of closing and to deliver them or evidence of their purchase to the Trustee on the day of closing. All references hereinafter made to the “Agreements” shall mean, collectively, the 1993 Agreements and the 2003 Agreements. The 2003 Agreements are more particularly described in Appendix A hereto

The Agreements, and all payments, proceeds, receipts, issues and benefits thereunder, are pledged under the Indenture to the Trustee for the benefit of the Owners of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

The Bonds and the interest thereon are special obligations of the Bond Bank payable solely from the Trust Estate, and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds, and shall be used for no other purpose than to pay the principal of and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bond Bank has pledged and assigned to the Trustee all of the Bond Bank's right, title and interest in and to the Agreements, including the Advancement Payments, for the equal benefit of all the Bondholders. Payment of the 2003 Bonds is insured by MBIA Insurance Corporation (the "Bond Insurer"). See "SECURITY AND SOURCES OF PAYMENT FOR BONDS" and "BOND INSURANCE."

Brief descriptions of the Bonds, the Indenture, the Acquisition Agreement, the Agreements, and the Undertaking (as defined herein) are included in this Official Statement. All summaries herein of documents and agreements and all references herein to the Bonds are qualified in their entirety by reference to the documents and agreements themselves and the form of Bond included in the Indenture.

THE INDIANA BOND BANK

The Bond Bank was created in 1984 and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity, and has no taxing powers. The Bond Bank is empowered under IC 5-1.5 and IC 21-1-5 to purchase the Agreements.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity; a purchase, acquisition or a sale of qualified obligations or other investments; or the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and for such periods as the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted under its contracts with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the Indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest and premium on the bonds, notes or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business, or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

Organization and Membership of Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four (4) of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four (4) Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999 to present and Chairman Ex Officio. Residence: Indianapolis, Indiana. Member, Indiana State Board of Finance; Vice-Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority; Allen County, Indiana Treasurer 1990 to February, 1999.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962 to 1985; Former Examiner, Federal Deposit Insurance Corporation.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and Norcen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to present; Chairman, State Board of Tax Commissioners, January 1991 to August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987 to 1994 (on leave 1989 to 1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to 2002. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Marni McKinney; Director, term expires July 1, 2004. Residence: Indianapolis, Indiana. Vice President, First Indiana Bank, 1984 to 1999; Chairman of the Board, 1999 to present; President and CEO, The Somerset

Group, 1995 to 2000; Vice Chairman and Chief Executive Officer, First Indiana Corporation, 1999 to present; Board of Directors, The Children's Museum, Community Hospitals of Indiana, Inc.; Investment Committee Member, The Indianapolis Foundation.

Morris H. Mills, Director, term expires July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of The Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

Outstanding Indebtedness

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$2,812,015,000 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of \$1,000,000,000. However, such aggregate limit does not apply to, *inter alia*, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5 or to the Bonds. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$314,230,000 in separate program obligations which count against the \$1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal of and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings will be secured separately and independently from the Bonds and will not constitute Bonds under the Indenture or for the purposes of this Official Statement.

THE STATE OF INDIANA AND THE INDIANA BOND BANK

The purpose of the Bond Bank is to foster and promote, in accordance with the Act, the provision of adequate markets for the borrowing of funds for public projects and purposes by the State's political subdivisions and certain public educational institutions. The programs of the Bond Bank allow many of these entities throughout the State to achieve lower costs of borrowing than they could if acting alone. The Bond Bank's programs thus serve in promoting and providing the necessary infrastructure to support the expanding needs of the State's broad and diverse economy. The financial statements of the Bond Bank for fiscal years ended June 30, 2002, are available upon request. See "MISCELLANEOUS."

A more detailed discussion of the State and its financial condition and procedures is set forth in Appendix B, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA." Appendix B contains "forward-looking statements" based on current expectations, estimates, forecasts and projections about and assumptions made by the State. These forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," and "seeks" or the negatives of such terms or other variations on such terms or comparable terminology. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially. These risks and uncertainties include demographic changes and general domestic economic conditions, including economic conditions of the State. The Bond Bank

and the State disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.

BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX C for a specimen of the Bond Insurer's financial guaranty insurance policy (the "Policy").

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Bond Bank to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; or (iii) any Preference relating to (i) and (ii) above. The Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Trustee or any owner of a Bond, the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the insured Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Bond Insurer

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of

investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and the Bond Insurer set forth under the heading "Bond Insurance". Additionally, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Bond Insurer Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ending December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Any documents filed by the company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Bond Insurer is (914) 273-4545.

As of December 31, 2002, the Bond Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003, the Bond Insurer had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 billion (unaudited), determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Bond Insurer

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Bond Insurer "AAA."

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

STATE BOARD OF EDUCATION

The Board of Education was established in 1945 and is organized, exists and is operated pursuant to IC 20-1-1. The Board of Education consists of the State Superintendent of Public Instruction and ten other members, each of whom is appointed by the Governor. The Superintendent of Public Instruction serves as chairman of the Board of Education. Appointed board members serve terms of four years.

The current membership of the Board of Education is as follows:

Dr. Suellen Reed Superintendent of Public Instruction	Ms. Susan E. Brace Fort Wayne, Indiana	Mr. Darvin Stilwell Boonville, Indiana
Dr. David O. Dickson Hammond Public Schools	Ms. Connie Blackketter Rensselaer, Indiana	Mr. Randle Pollard Indianapolis, Indiana
Ms. Sandra Kirts Cantrell Columbus, Indiana	Mr. Robert W. Lazard Indianapolis, Indiana	Mr. J. Gordon Pendleton Corydon, Indiana
Mr. Robert Kovach Mishawaka, Indiana	Mr. Daniel Tanoos Vigo County School Corporation	

The State Superintendent of Public Instruction is Dr. Suellen K. Reed.

In accordance with IC 21-1-5-11, the Board of Education requested that the Board of Finance sell the Agreements to the Bond Bank. The Board of Education and the Board of Finance shall reduce each distribution of school tuition support payments to repay advancements made to School Corporations. Pursuant to the Acquisition Agreement and IC 21-1-5-11, the Board of Education is permitted to deduct the Advancement Payments for payment to the Bond Bank.

STATE DEPARTMENT OF EDUCATION

The Indiana State Department of Education (the "Department of Education") was established in 1984. The Superintendent of Public Instruction is the Director of the Department of Education.

The Department of Education is required by IC 21-1-5-11, to advise the Board of Education in making its request to the Board of Finance to sell the Agreements to the Bond Bank. The Department of Education so advised the Board of Education.

STATE BOARD OF FINANCE

The Governor, Auditor and Treasurer of the State constitute the Board of Finance. The Board of Finance elects from its membership a president. The Treasurer currently serves as the President of the Board of Finance. The Auditor serves as the Secretary of the Board of Finance.

The Board of Finance has advisory supervision of the safekeeping of all funds coming into the State Treasury and all other funds belonging to the State coming into the possession of any state officer or agency.

The Board of Finance is empowered to sell, transfer, or liquidate the Agreements, pursuant to IC 21-1-5-11. To effect the sale, the Board of Finance will enter into the Acquisition Agreement on the date of delivery of the Bonds.

STATE BUDGET AGENCY

The State Budget Agency (the "Budget Agency") was established as a State Agency in 1961. The State Budget Director, appointed by the Governor to serve at his pleasure, is the chief executive officer of the Budget Agency. The current State Budget Director is Marilyn Schultz.

A State Budget Committee (the "Budget Committee"), consisting of five regular members and four alternate members, cooperates in the preparation of a recommended budget report and budget bill, serves as liaison between the legislative and executive departments of State government, and provides information to the General Assembly with respect to the management of State fiscal affairs. The Budget Committee consists of the State Budget Director, two State Senators appointed by the President Pro-Tem of the Senate, one of whom is nominated by the leader of the minority political party in the Senate, and two State Representatives appointed by the Speaker of the House of Representatives, one of whom is nominated by the leader of the minority political party in the House of Representatives. All members, except the State Budget Director, serve at the will and pleasure of the respective appointing leadership or until such member's term as a member of the General Assembly expires, whichever is shorter.

Pursuant to IC 21-1-5-11, each proposed sale, transfer, or liquidation must be reviewed by the Budget Committee and approved by the Budget Agency. The Budget Committee has reviewed the Agreements and the Budget Agency has approved the sale of the Agreements.

THE COMMON SCHOOL FUND

The Common School Fund was created by Article 8, Section 2, of the Indiana Constitution (the "Constitution"). The Constitution provides for funding the Common School Fund from a number of other funds, many of which no longer exist, as well as fines assessed for breaches of penal laws of the State, forfeitures, and funds which escheat to the State. The Constitution provides that the Common School Fund shall never be diminished in principal amount. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS.

The Board of Education is authorized to advance money in the Common School Fund to School Corporations to be used for school building construction and educational technology programs. Advancements with respect to school building construction programs may not exceed the greater of \$15,000,000 or the product of \$15,000 multiplied by the number of pupils accommodated as a result of the school construction building program unless the School Corporation has sustained a loss caused by fire, wind, cyclone or other disaster, in which event such limitation may be waived by the Board of Education after consulting with the Department of Education and the Budget Agency. Advances for educational technology programs are not limited in amount other than the availability of funds in the Common School Fund set aside for this purpose and the ability of the School Corporation to repay the Advancement in accordance with the terms of its Agreement.

Money from the Common School Fund may be advanced to School Corporations for school building construction programs for periods of time not exceeding 25 years. None of the Agreements being purchased, and which were entered into in connection with school building construction projects, may be prepaid. The State Board of Finance periodically establishes a rate or rates of interest payable on advances for school building construction programs. However, such interest rates are limited under IC 21-1-5-5 to (i) four percent (4%) for Advancements made to School Corporations with Advancements outstanding on July 1, 1993, bearing rates of seven and one-half percent (7½%) or more, and (ii) seven and one-half percent (7½%) for Advancements made to other School Corporations.

Money may not be advanced to school corporations for educational technology programs for periods exceeding five years. The Board of Finance periodically establishes rates of interest payable on Advancements for educational technology programs which may not be less than one percent (1%) and which may not exceed four percent (4%).

Currently, the interest rate with respect to Advancements relating to school building construction programs is four percent (4%). The interest rate on Advancements relating to educational technology programs is one percent (1%).

To provide for the repayment of any Advancement, the Board of Education and the Board of Finance are authorized in their sole discretion to withhold from funds due to the School Corporation which received an Advancement an amount of money that is necessary to repay such Advancement and interest thereon over the term of the Agreement. The Advancement Payments necessary to repay the Advancement to a School Corporation are deducted from school tuition support payments appropriated by the General Assembly to each School Corporation as available for such purpose and other moneys appropriated by the General Assembly to such School Corporation as available for such purpose. State school tuition support is a line item in the State budget, and is funded from the State's General and Property Tax Replacement Fund. See: Appendix B -- "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA", "State Revenues and Expenses" and "Financial Results of Operations." State school tuition support is the largest single revenue source for most School Corporations.

THE PURCHASE AND TRANSFER OF THE AGREEMENTS

Pursuant to IC 21-1-5-11, the Board of Finance is authorized, upon the request of the Board of Education, on the recommendation of the Department of Education, to sell, transfer or liquidate the Agreements to the Bond Bank. IC 21-1-5-7 provides that the Agreements do not constitute a debt of the State within the meaning of the constitutional prohibition against State indebtedness.

The Board of Education, acting upon the recommendation of the Department of Education, has requested that the Board of Finance sell all or a portion of the 2003 Agreements to the Bond Bank. The sale of the 2003 Agreements has been reviewed by the Budget Committee and has been approved by the Budget Agency. In addition, the 1993 Agreements acquired with the proceeds of the 1993 Bonds will be transferred to and administered under the Acquisition Agreement upon the issuance of the Bonds and the defeasance of the 1993 Bonds.

A list of the 2003 Agreements being sold by the Board of Finance to the Bond Bank and the aggregate principal amount outstanding and rate of interest on each such Agreement are set forth in Appendix A. No future Advancements made from the Common School Fund will be used to secure the Bonds. No portion of the Common School Fund will be available to pay debt service on the Bonds.

The 2003 Agreements are being sold to provide additional funds to the Common School Fund for the purpose of making future Advancements from the Common School Fund. The purchase price for the 2003 Agreements will be paid to the Treasurer of the State for deposit in the Common School Fund. Neither the purchase of the 2003 Agreements, nor the transfer of the 1993 Agreements, will have an effect on School Corporations which have outstanding Advancements or change the way in which outstanding Advancements are structured or administered.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligation. The Bonds are special obligations of the Bond Bank, payable as to principal, premium, if any, and interest solely from the Trust Estate and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bonds and the interest thereon shall never constitute an obligation of the State, any political subdivision thereof, including the School Corporations, within the meaning of any constitutional or statutory provision or limitation on indebtedness. The Bonds and the interest thereon shall never constitute nor give rise to a charge against the general credit, funds or assets of the State, any political subdivision thereof including the School Corporations, or the taxing powers of the State or any political subdivision thereof, including the School

Corporations. No holder of any Bond may compel the exercise of the taxing power of the State or any political subdivision thereof, including the School Corporations to pay principal of, premium, if any, or interest on the Bonds. No portion of the Common School Fund is available to pay the Bonds. The Bond Bank has no taxing power.

The ability of the Bond Bank to pay principal of, premium, if any, and interest on the Bonds depends solely upon the receipt by the Bond Bank of Advancement Payments. There can be no representation or assurance that the Bond Bank will receive sufficient Advancement Payments to make the required payments of principal of, premium, if any, and interest on the Bonds. The receipt of such Advancement Payments by the Bond Bank is subject to, among other things, future economic conditions and other conditions affecting the State and the School Corporations which are variable and cannot be predicted.

Advancement Payments Subject to Biennial Appropriation. The Advancements to School Corporations from the Common School Fund are repayable from the Advancement Payments. State school tuition support, the primary source of the Advancement Payments, is a line item in the State's biennial budget, and must be approved by the General Assembly. State school tuition support payments currently are the primary source of funding for most School Corporations in the State. There can be no assurance that sufficient funds will be appropriated by the General Assembly for State school tuition support to provide the deductions necessary to support the Board of Education's rights under the Agreements and the Board of Finance's obligations under the Acquisition Agreement. Bondholders have no right to have taxes levied or to compel appropriations by the General Assembly to pay the Bonds. Moreover, there can be no assurance that any funds so appropriated will be available to make Advancement Payments. If sufficient funds are not appropriated and available, the Advancement Payments will be insufficient to pay principal of, premium, if any, or interest on the Bonds. See Appendix B for the financial and economic information relating to the State.

Remedies Limited. The remedies available to the Trustee, to the Bond Bank or to the Owners of the Bonds upon an event of default under the Indenture, the Agreements or the Acquisition Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture, the Agreements or the Acquisition Agreement may not be readily available or may be limited. Further, under the Indenture, the Trustee is required to pursue certain courses of action upon the written request of the Owners of fixed percentages of the Bonds Outstanding. There is no assurance that the interests of the owners of such percentage of the Bonds Outstanding will be identical to those of the Owners of all other Bonds. Nonetheless, the request of the Owners of the applicable percentage of the principal amount of all outstanding Bonds is sufficient to direct the actions of the Trustee.

Security for the Bonds. The Board of Finance will, pursuant to the Acquisition Agreement, sell a portion of its rights, title, and interest in and to each of the 2003 Agreements to the Bond Bank. Upon the issuance of the Bonds, the 1993 Agreements will be transferred to and administered under the Acquisition Agreement. The Agreements and the Act permit the Board of Education and the Board of Finance to deduct the Advancement Payments. The Acquisition Agreement requires the Board of Finance, the Treasurer of the State, and the Board of Education, as applicable, to take all actions in the best interest of the Bond Bank and exercise for the benefit of the Bond Bank, to the maximum extent permitted under the Indiana Code, all rights (including without limitation the rights under the Act) and options available under the Indiana Code relating in any way to (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Agreements. The Bond Bank has assigned its rights under the Acquisition Agreement to the Trustee for the benefit of the Owners of the Bonds.

NO MORAL OBLIGATION IS PLEDGED TO THE BONDS. THE BOND BANK HAS NO TAXING POWER.

THE BONDS

General Description. The Bonds are issuable under the Indenture as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Each Bond will be dated the date of delivery thereof. If any Bond is authenticated on or prior to July 15, 2003, it will bear interest from the original issue date. Each Bond authenticated after July 15, 2003, will bear interest from the most recent Interest Payment Date on which interest was paid prior to the date of authentication of such Bond, unless the Bond is authenticated after a Record Date but prior to the related Interest Payment Date. Bonds authenticated after a Record Date but prior to the related Interest Payment Date will bear interest from the related Interest Payment Date.

The Series 2003 A Bonds and the Series 2003 B Bonds will be issued in the aggregate principal amounts of \$35,550,000 and \$107,895,000, respectively, and shall mature and bear interest as set forth on the inside cover page of this Official Statement.

For so long as the Bonds are registered in the name of The Depository Trust Company (“DTC”), New York, New York, or its nominee, payments of the principal of, premium, if any, and interest on the Bonds will be paid only to DTC or its nominee. Interest on the Bonds will be paid on each Interest Payment Date by wire transfer to DTC or its nominee. Principal of, and premium, if any, will be paid to DTC or its nominee upon presentation and surrender of the Bonds at the principal office of the Trustee. Neither the Bond Bank nor the Trustee will have any responsibility for the Beneficial Owner’s (as hereinafter defined) receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant (both as hereinafter defined), of any payments of principal of, premium, if any, or interest on the Bonds. See “THE BONDS--Book-Entry-Only System.”

If the Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on the first Interest Payment Date after the Bonds are no longer so registered by check issued by the Paying Agent dated the due date and mailed on each Interest Payment Date to the registered Owners as of the close of business on the most recent Record Date or by wire transfer to Owners of \$1,000,000 or more in principal amount of the Bonds upon written request of such owners. Principal on the Bonds will be payable on the Maturity Date of such Bond upon presentation of the Bond at the principal corporate trust office of the Trustee.

Optional Redemption. The Series 2003 A Bonds are not subject to optional redemption prior to maturity. The Series 2003 B Bonds maturing on and after February 1, 2014, are subject to optional redemption prior to maturity on any date on and after August 1, 2013, at the face amount thereof plus accrued interest to the date of redemption.

Notice of Redemption. Notice of any redemption, identifying the Series 2003 B Bonds to be redeemed, will be given by the Trustee at least 30 days but not more than 45 days prior to the Redemption Date by mailing a copy of the redemption notice by registered or certified mail to the registered Owner of each Bond to be redeemed at the address shown on the Bond Register. For so long as the Series 2003 B Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of Series 2003 B Bonds only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner’s receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any notices of redemption. See “THE BONDS – Book-Entry-Only System.”

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Series 2003 B Bonds subject to redemption, together with the premium, if any, and the accrued interest on the Series 2003 B Bonds to the redemption date. After the redemption date, if sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Series 2003 B Bonds that have been called for redemption. For so long as the Series 2003 B Bonds are registered in the name of DTC or its nominee, redemption payments on the Series 2003 B Bonds will be paid by the Trustee only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner’s receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any redemption payments on any Series 2003 B Bonds. See “THE BONDS--Book-Entry-Only System.”

Selection of Series 2003 B Bonds for Redemption. If less than all of the Series 2003 B Bonds are to be redeemed, the Series 2003 B Bonds shall be redeemed only in whole multiples of \$5,000. For purposes of redemption, each \$5,000 of principal shall be considered as a Series 2003 B Bond. If less than all of the Series 2003 B Bonds shall be called for redemption, the principal amount and maturity of the particular Series 2003 B Bonds to be redeemed shall be selected by the Bond Bank. The Trustee shall select the particular Series 2003 B Bonds to be redeemed by lot within a maturity in such manner as the Trustee may determine.

For so long as the Series 2003 B Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only Series 2003 B Bonds or portions thereof registered in the name of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for selecting for redemption any Beneficial Owner's interests in the Series 2003 B Bonds. See "THE BONDS – Book-Entry-Only System."

Exchange and Transfer. The Bonds may be transferred or exchanged at the principal corporate trust office of the Trustee, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax or other governmental charge for any such transfer or exchange that may be imposed upon the Bond Bank or the Trustee.

In the event any Bond is mutilated, lost, stolen or destroyed, the Bond Bank may issue and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Indenture. The Owner of such Bond shall be required to provide an indemnity satisfactory to the Bond Bank and the Trustee, and they may charge the Owner of such Bonds for its reasonable fees and expenses in connection therewith, including the cost of having a replacement Bond printed.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interests in the Bonds. See "THE BONDS – Book-Entry-Only System."

Book-Entry-Only System. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursements of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bond Bank takes no responsibility for the accuracy thereof.

Revision of Book-Entry Only System. In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Bonds, and to transfer the ownership of each of the Bonds, in accordance with the Indenture. See "General Description" and "Exchange and Transfer" in this section.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to acquiring the Agreements and paying costs incidental to the sale and delivery of the Bonds are estimated as shown below:

Sources of Funds:

Principal Amount of Bonds	\$143,445,000.00
Net Original Issue Premium	<u>\$ 16,190,410.45</u>
 TOTAL SOURCES	 \$159,635,410.45

Use of Funds:

Acquisition of 2003 Agreements	\$113,575,506.59
Deposit to Common School Fund*	\$ 7,793,940.95
Escrow Account	\$ 36,445,498.66
Costs of Issuance**	<u>\$ 1,820,464.25</u>
 TOTAL USES	 \$159,635,410.45

*Or for such other purposes permitted by law, as determined by the Bond Bank.

**Includes bond insurance premium and underwriters' discount.

OPERATION OF FUNDS AND ACCOUNTS

The Indenture establishes the following Funds to be held by the Trustee:

- A. General Fund, consisting of the following:
 - 1. General Account
 - 2. Redemption Account
- B. Costs of Issuance Fund
- C. Acquisition Fund
- D. Rebate Fund

General Fund-General Account. The Trustee shall deposit in the General Account all Advancement Payments, all income or gain on Investment Securities attributable to any fund or account (except the Rebate Fund), all other Revenues and any moneys remaining in the Escrow Account after the redemption date of the 1993 Bonds and not necessary for the payment of the principal of and redemption premium and interest on the 1993 Bonds.

Moneys in the General Account of the General Fund will be disbursed as follows: (i) not later than thirty days after the end of each Bond Year, such amounts, if any, as may be required to be transferred to the Rebate Fund; (ii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary to pay interest due to be paid on Outstanding Bonds on such Interest Payment Date; (iii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary, if any, to pay principal due to be paid on Outstanding Bonds on such Interest Payment Date; (iv) at such times as may be necessary, to pay Program Expenses, but only (a) upon the receipt by the Trustee of a requisition from an Authorized Officer, describing the Program Expense for which such payment is sought and the amount thereof and certifying that such Program Expense is properly payable under the Indenture, and (b) to the extent that any such Program Expense, when added to all other Program Expenses paid or payable following the date of the most recent Cash Flow Certificate, does not exceed the amount of such Program Expenses contemplated by such Cash Flow Certificate.

General Fund-Redemption Account. There shall be deposited in the Redemption Account of the General Fund all moneys received as a result of a default under any of the Agreements. Moneys in the Redemption Account will be distributed as follows: (i) on the second Business Day prior to any Interest Payment Date, if amounts in the General Account of the General Fund are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account of the General Fund amounts in the Redemption Account available for such transfer and not otherwise committed under the Indenture to the redemption of Bonds for which notice of redemption has been given; and (ii) after provision has been made for the payments required under (i) above to (a) redeem Bonds of such maturity or maturities as may be directed by an Authorized Officer if such Bonds are then subject to redemption or (b) purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds shall then be subject to redemption. Such price may not, however, exceed the redemption price which would be payable on the next ensuing redemption date on which the Bonds so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate. The Trustee shall pay the interest accrued on any Bonds so purchased to the date of delivery thereof from the General Account of the General Fund and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of forty-five (45) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption.

At the direction of the Bond Bank, the Trustee may transfer any amounts in the Redemption Account to the General Account of the General Fund provided that the Trustee is provided with a Positive Cash Flow Certificate taking into account such transfer.

Cost of Issuance Fund. The Trustee shall deposit \$561,000.00 of the proceeds of the Bonds in the Costs of Issuance Fund for the purpose of paying the costs associated with issuing the Bonds (which amount excludes (i) Underwriters' discount which shall be retained by the Underwriters upon payment of the purchase price of the Bonds and (ii) the premium for the Policy which shall be paid directly to the Bond Insurer by wire transfer on the date of delivery of the Bonds). All funds in the Costs of Issuance Fund which are not expended for such costs of issuance or which have not been expended for costs of issuance prior to the date six (6) months after the date of delivery of the Bonds, shall be transferred to the General Account of the General Fund.

Acquisition Fund. The Trustee will deposit in the Acquisition Fund all available proceeds of the Bonds after the deposits to the Costs of Issuance Fund, the General Account of the General Fund and the Escrow Account set forth in the Indenture. Moneys in the Acquisition Fund shall be disbursed (i) to the Treasurer of the State for deposit into the Common School Fund or as otherwise permitted by law upon the submission of a requisition by the Bond Bank; and (ii) to purchase the 2003 Agreements in accordance with procedures established for such purposes pursuant to the Indenture and upon submission of requisitions by the Bond Bank to the effect that all requirements and conditions with respect to such purchases have been met.

Rebate Fund. Pursuant to the Indenture, the Trustee will establish and maintain so long as any Bonds are Outstanding, a separate Fund to be known as the Rebate Fund. The Rebate Fund will not be pledged as security for the payment of the principal of, premium, if any, and interest on the Bonds.

Investment of Funds. The Trustee shall as continuously as reasonably possible invest and reinvest the funds on deposit in the Funds and Accounts from time to time in Investment Securities as may be directed by the Bond Bank, or, if no direction is provided, then in money market funds meeting the criteria set forth in the definition of “Investment Securities” set forth in the Indenture. Income or interest earned or gains realized in any Fund or Account due to such investment will be credited to the General Account of the General Fund, except that earnings or gains in the Rebate Fund will remain in such Fund.

THE BONDS AS LEGAL INVESTMENTS

Under the Act, all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and notes of the Bond Bank issued under the Act.

LITIGATION

Bond Bank. There is not pending, or to the Bond Bank’s knowledge, threatened any litigation restraining, questioning or enjoining the issuance, sale, execution or delivery of the Bonds or prohibiting the Bond Bank from purchasing the Agreements with the proceeds of such Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any money or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Board of Finance. There is not pending, or to the Board of Finance’s knowledge, threatened any litigation restraining, questioning or enjoining the sale, execution or delivery of the Agreements or prohibiting the Board of Finance from selling the Agreements or in any way contesting or affecting the validity of the Agreements, or any proceedings of the Board of Finance taken with respect to the sale thereof. Neither the creation, organization or existence of the Board of Finance nor the title of any of the present members of the Board of Finance to their respective offices is being contested.

TAX MATTERS

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds (the “Code”). The opinion of Barnes & Thornburg is based on certain certifications, covenants and representations of the Bond Bank and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is exempt from income taxation in the State for all purposes except the State financial institutions tax. See Appendix E for the form of Opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal income tax purposes. Noncompliance with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. It is not an event of default if interest on the Bonds is not excludable from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Bonds are not “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect an owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner’s particular tax status and the owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

AMORTIZABLE BOND PREMIUM

The initial offering price of each maturity of the Bonds is greater than the respective principal amount payable at maturity. As a result, the Bonds will be considered to be issued with amortizable bond premium (the “Bond Premium”). An owner who acquires a Bond in the initial public offering will be required to adjust the owner’s basis in the Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer’s yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Bonds. Owners of the Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of Bonds and with respect to the state and local tax consequences of owning and disposing of Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning treatment of Bond Premium.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Bond Bank by its general counsel for the Program, Bingham McHale LLP, Indianapolis, Indiana, and for the State by its Disclosure Counsel, Krieg DeVault LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Baker & Daniels, Indianapolis, Indiana.

UNDERWRITING

Under the Bond Purchase Agreement entered into between RBC Dain Rauscher Inc. (the “Representative”) on behalf of itself and the other underwriters of the Bonds (the “Underwriters”), and the Bond Bank, the Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$158,824,946.20 which represents the par amount of the Bonds (\$143,445,000), less the Underwriters’ discount of \$810,464.25, plus net original issue premium of \$16,190,410.45. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the Bond Purchase Agreement.

The Underwriters have agreed to make a bona fide public offering of all of the Bonds at prices not in excess of the initial public offering prices set forth or reflected on the inside cover of this Official Statement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Crowe Chizek and Company LLC, independent certified public accountants, will deliver to the Bond Bank its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Bond Bank, the Underwriters and their representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of, and interest on, securities deposited in the Escrow Account to pay, when due, the maturing principal and called principal of and redemption premium, if any, and interest on the 1993 Bonds; and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “SEC”), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent (the “Agent”), certain annual financial information and operating data described below.

Pursuant to the terms of the State’s Continuing Disclosure Undertaking Agreement (the “Undertaking”), the State will agree to provide the following information as long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository (“NRMSIR”) then in existence and to the Indiana state information depository then in existence, if any (the “State Depository”), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2003, together with the independent auditor’s report and all notes thereto; if audited financial statements are not available within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2003, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and
2. Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2003, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in

Appendix B – “FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA.”

(The information described in items 1 and 2 above is referred to as the “Annual Information.”)

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the State Depository, the following event notices (“Event Notice”), if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State or the Bond Bank chooses to provide any such additional information, they shall have no obligation to update such information or include it in any future Annual Information or Event Notice.

Failure to Disclose. In a timely manner, the Trustee shall notify each NRMSIR or the Municipal Securities Rulemaking Board, and the State Depository of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR then in existence and to the State Depository along with the Annual Information required as specified above and containing such information as is still available, will satisfy the State’s undertaking to provide the Annual Information. To the extent available, the State will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

Accounting Principles. The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedy. The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriter (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State’s disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its obligations under the Undertaking.

Modification of Undertaking. The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a)(i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Counterparty as Trustee under the Indenture) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders, or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Compliance with Previous Undertakings. In the previous five years, the Bond Bank and the State have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that either of them entered into pursuant to subsection (b)(5) of the Rule.

Copies of the Undertaking are available from the Bond Bank upon request.

RATINGS

Standard & Poor's has given the Bonds a rating of "AAA." A further explanation of such rating may be obtained from such agency at 25 Broadway, New York, New York, 10004. This rating is based upon the assumption that the Bond Insurer will deliver the Policy insuring the timely payment of the principal of and interest on the Bonds upon the issuance thereof. Such rating reflects only the view of Standard & Poor's and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Standard & Poor's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

Moody's Investors Service has given the Bonds a rating of "Aaa." A further explanation of such rating may be obtained from such agency at 99 Church Street, New York, New York, 10007. This rating is based upon the assumption that the Bond Insurer will deliver the Policy insuring the timely payment of the principal of and interest on the Bonds upon the issuance thereof. Such rating reflects only the view of Moody's Investors Service and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Moody's Investors Service, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

MISCELLANEOUS

The Bond Bank's offices are located at 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204, Telephone (317) 233-0888.

Crowe Chizek & Company LLC, Indianapolis, Indiana, is employed as financial advisor to the Bond Bank and has acted as such with respect to the Bonds.

All quotations from, and summaries and explanations of the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the Bonds contained in this Official Statement do not purport to be complete and reference is made to the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the

Bonds for full and complete statements of their provisions. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements. Copies in reasonable quantity of the Act, the Indenture, the Undertaking and the Acquisition Agreement may be obtained upon request directed to the Bond Bank.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, signed and delivered by the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry
Tim Berry, Chairman, Ex Officio

APPENDIX A

**LIST OF AGREEMENTS TO BE ACQUIRED OR
ADMINISTERED UNDER THE ACQUISITION AGREEMENT**

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INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds, Series 2003 B

Advancements Purchased

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Final Maturity*</u>
South Putnam Community School Corporation	315	5.00%	\$ 37,500	7/1/2015
North Spencer Community School Corporation	335	5.00%	37,328	7/1/2015
Southern Wells Community School Corporation	342	4.00%	1,700,000	7/1/2015
Wabash City Schools	344	4.00%	1,700,000	7/1/2015
Centerville-Abington Community School Corporation	346	4.00%	2,507,718	1/1/2016
Crown Point Community School Corporation	347	4.00%	1,292,589	7/1/2015
West Noble School Corporation	350	4.00%	1,700,000	7/1/2015
Center Grove Community School Corporation	351	5.00%	300,000	1/1/2020
M.S.D. of Boone Township	352	4.00%	1,814,523	7/1/2015
Marion-Adams Schools	353	4.00%	1,639,980	7/1/2011
Eastern School District of Greene County	354	4.00%	1,054,000	7/1/2015
Greater Clark County Schools	355	4.00%	425,000	7/1/2015
Western Wayne Schools	356	4.00%	3,562,955	7/1/2015
Tippecanoe Valley School Corporation	357	4.00%	510,000	7/1/2015
Porter Township School Corporation	358	4.00%	690,859	7/1/2015
Cloverdale Community School Corporation	400	4.25%	1,733,184	7/1/2017
Crown Point Community School Corporation	401	4.25%	1,700,000	7/1/2017
Cowan Community School Corporation	403	4.25%	1,462,500	7/1/2015
M.S.D. of Bluffton-Harrison	404	4.25%	2,244,325	1/1/2016
Hanover Community School Corporation	406	4.25%	2,259,283	7/1/2017
Smith-Green Community Schools	407	4.00%	811,835	7/1/2015
M.S.D. of Shakamak	408	4.00%	1,179,426	7/1/2015
Crawford County Community School Corporation	409	4.25%	283,570	1/1/2016
Western Wayne Schools	410	4.25%	848,351	7/1/2017
Crown Point Community School Corporation	411	4.25%	1,700,000	7/1/2017
Sunman-Dearborn Community School Corporation	412	4.00%	2,721,807	7/1/2015
Community Schools of Frankfort	413	4.25%	3,060,000	7/1/2017
Penn-Harris-Madison School Corporation	414	4.00%	12,608,704	7/1/2015
Manchester Community Schools	415	4.25%	2,993,700	7/1/2017
East Gibson School Corporation	416	4.25%	2,313,003	7/1/2017
South Madison Community School Corporation	417	4.00%	5,193,019	7/1/2015
Griffith Public Schools	418	5.25%	101,668	1/1/2020
Switzerland County School Corporation	419	5.25%	355,140	1/1/2020
M.S.D. of Decatur Township	420	4.00%	592,858	7/1/2015
School City of Hammond	421	4.75%	1,266,684	1/1/2020
Hanover Community School Corporation	422	4.75%	540,000	1/1/2020
M.S.D. of Decatur Township	425	4.00%	1,700,000	7/1/2015
Clay Community Schools	426	4.25%	1,169,280	7/1/2012
Lake Station Community Schools	427	4.00%	17,764	1/1/2008
East Washington School Corporation	428	4.75%	456,000	1/1/2020
South Dearborn Community School Corporation	429	4.00%	4,882,825	7/1/2015

* Equals Treasury Payment Date

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds, Series 2003 B

Advancements Purchased

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Final Maturity*</u>
New Castle Community School Corporation	431	4.75%	5,605,382	7/1/2019
Greater Clark County Schools	432	4.75%	360,000	1/1/2020
Huntington County Community School Corporation	433	4.75%	939,036	1/1/2020
Lake Station Community Schools	434	4.00%	130,000	1/1/2008
Perry Central Community School Corporation	435	4.50%	2,655,000	1/1/2020
Crawford County Community School Corporation	436	4.50%	761,850	1/1/2020
Lake Ridge Schools	437	4.50%	490,482	1/1/2020
Rising Sun-Ohio County Community School Corporation	438	4.50%	1,330,092	1/1/2020
Crawford County Community School Corporation	439	4.50%	1,512,000	1/1/2020
Cloverdale Community School Corporation	440	4.50%	880,146	1/1/2020
Scott County District 1	441	4.50%	1,560,114	1/1/2020
Lake Ridge Schools	442	4.50%	1,427,346	1/1/2020
Lake Ridge Schools	443	4.50%	500,814	1/1/2020
Scott County District 1	444	4.50%	2,182,086	1/1/2020
Spencer-Owen School Corporation	445	4.50%	5,134,019	1/1/2020
West Washington School Corporation	446	4.00%	889,959	7/1/2015
Lake Station Community Schools	447	4.00%	325,328	1/1/2015
Paoli Community School Corporation	448	4.00%	176,477	7/1/2015
Porter Township School Corporation	450	4.00%	562,618	7/1/2015
Loogootee Community School Corporation	451	4.00%	941,518	7/1/2015
North West Hendricks School Corporation	455	4.00%	489,582	7/1/2015
North Miami Community Schools	458	4.00%	476,000	7/1/2015
Paoli Community School Corporation	461	4.00%	318,750	7/1/2015
Lake Station Community Schools	467	4.00%	212,500	7/1/2015
Lake Station Community Schools	468	4.00%	150,000	1/1/2012
Charles A. Beard Memorial School Corporation	471	4.00%	2,943,600	7/1/2015
Clay Community Schools	473	4.00%	2,273,333	7/1/2015
Franklin County Community School Corporation	474	4.00%	1,771,000	7/1/2015
School City of Hammond	477	4.00%	1,540,000	7/1/2015
Loogootee Community School Corporation	479	4.00%	123,742	7/1/2015
School City of Hammond	485	4.00%	550,000	7/1/2015
Alexandria Community School Corporation	486	4.00%	468,677	7/1/2005
Rossville Consolidated School District	493	4.00%	726,678	7/1/2015

* Equals Treasury Payment Date

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds, Series 2003 A

Series 1993 Advancements Refunded

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Final Maturity*</u>
Shelby Eastern Schools	137	3.375%	\$ 18,323	7/1/2003
East Washington School Corporation	160	3.375%	56,250	7/1/2004
Delphi Community School Corporation	164	3.375%	56,250	7/1/2004
North Central Community School Corporation	165	3.375%	18,750	7/1/2003
Knox Community School Corporation	167	3.375%	18,750	7/1/2003
Milan Community School Corporation	168	3.375%	18,746	7/1/2003
Union Township School Corporation	169	3.375%	56,250	7/1/2004
Spencer-Owen Community Schools	173	3.375%	75,000	1/1/2005
Hamilton Heights School Corporation	174	9.000%	56,250	7/1/2004
Brownstown Central Community School Corporation	175	3.375%	15,912	7/1/2003
John Glenn School Corporation	176	3.375%	18,750	7/1/2003
Southeast Dubois County School Corporation	177	9.000%	41,250	7/1/2004
County School Corporation of Brown County	178	3.375%	12,508	7/1/2003
Clinton Central School Corporation	179	8.000%	75,000	1/1/2004
Randolph Central School Corporation	180	9.000%	14,990	7/1/2003
Northeast Dubois County School Corporation	181	8.000%	150,000	1/1/2005
Union-North United School Corporation	182	8.000%	112,500	7/1/2004
Northern Community Schools (Tipton County)	183	8.000%	112,500	7/1/2004
Twin Lakes School Corporation	184	8.000%	150,000	1/1/2005
North West Hendricks School Corporation	185	3.375%	29,682	7/1/2004
Northeastern Wayne School Corporation	186	3.375%	53,805	7/1/2004
Lake Station Community Schools	187	9.000%	86,838	1/1/2005
Randolph Eastern School Corporation	188	9.000%	18,625	7/1/2003
Penn-Harris-Madison School Corporation	189	3.375%	15,286	7/1/2004
Logansport Community School Corporation	190	9.000%	75,000	1/1/2004
Southwestern Consolidated School Corporation	191	8.000%	37,500	7/1/2003
Nettle Creek School Corporation	192	8.000%	176,648	7/1/2005
Smith-Green Community Schools	193	9.000%	7,486	7/1/2003
Monroe Central School Corporation	194	8.000%	112,500	7/1/2004
Warsaw Community Schools	195	3.375%	93,750	7/1/2005
Franklin Township Community School Corporation	196	8.000%	114,894	1/1/2005
Rossville Consolidated School District	197	9.000%	187,500	7/1/2005
School District of Decatur Township (Shelby County)	198	8.000%	112,500	7/1/2004
Lakeland School Corporation	199	9.000%	4,135	7/1/2003
Northwestern Consolidated School District	200	8.000%	150,000	1/1/2005
Western Wayne Schools	201	8.000%	175,000	7/1/2005
Northeast School Corporation (Sullivan County)	202	9.000%	150,000	1/1/2005
School City of Hobart	203	8.000%	225,000	1/1/2006
School City of Mishawaka	204	8.000%	155,236	1/1/2006
Scott County School District #2	205	9.000%	150,000	1/1/2005
Middlebury Community Schools	206	9.000%	46,835	1/1/2006

* Equals Treasury Payment Date.

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds, Series 2003 A

Series 1993 Advancements Refunded

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Final Maturity*</u>
South Madison Community School Corporation	207	9.000%	187,076	7/1/2005
Brownsburg Community School Corporation	208	8.000%	187,500	7/1/2005
Clinton Prairie School Corporation	209	8.000%	262,395	7/1/2006
Mooreville Consolidated School Corporation	210	8.000%	225,000	1/1/2006
Bloomfield School District	211	8.000%	249,477	1/1/2007
Rockville Community Schools	212	8.000%	499,016	7/1/2006
Hsouth Harrison Community School Corporation	215	3.375%	98,438	7/1/2005
Kankakee Valley School Corporation	216	8.000%	300,000	1/1/2007
Turkey Run Community School Corporation	217	8.000%	82,178	1/1/2006
Metro School District of Shakamak	218	8.000%	106,440	7/1/2006
Mill Creek Community School Corporation	219	8.000%	175,334	1/1/2006
Penn-Harris Madison School Corporation	220	9.000%	300,000	1/1/2007
South Vermillion Community School Corporation	221	8.000%	341,244	7/1/2006
Whitko Community School Corporation	222	8.000%	300,000	1/1/2007
Madison Consolidated School	223	8.000%	300,000	1/1/2007
Madison-Grant United School Corporation	224	9.000%	337,500	7/1/2007
Franklin Community School Corporation	225	8.000%	300,000	1/1/2007
Jennings County Schools	226	8.000%	58,699	1/1/2006
Nineveh-Hensley-Jackson United School Corporation	227	8.000%	262,500	7/1/2006
North Lawrence Community Schools	228	8.000%	300,000	1/1/2007
Southwest Parke Community School Corporation	229	8.000%	286,293	1/1/2007
Eminence Consolidated School Corporation	231	9.000%	220,447	7/1/2007
Eastbrooke Community School Corporation	232	7.000%	300,000	1/1/2007
Washington Community Schools, Inc.	233	9.000%	283,479	7/1/2007
South Dearborn Community School Corporation	234	8.000%	337,500	7/1/2007
Center Grove Community School Corporation	235	7.000%	300,000	1/1/2007
Sunman-Dearborn Community Schools	236	9.000%	339,701	1/1/2008
Porter Township School Corporation	237	9.000%	410,467	7/1/2008
North Montgomery Community School Corporation	238	7.000%	375,000	1/1/2008
Southwest Dubois County School Corporation	239	8.000%	299,411	1/1/2008
Greencastle community School Corporation	241	7.000%	292,924	7/1/2008
Community Schools of Frankfort	242	7.000%	375,000	1/1/2008
M.S.D. of Steuben County	243	7.000%	375,000	1/1/2008
Linton-Stockton School Corporation	244	7.000%	125,000	1/1/2008
Charles A. Beard Memorial School Corporation	245	8.000%	469,614	7/1/2009
North White School Corporation	247	9.000%	297,623	1/1/2009
Clay Community Schools	248	7.000%	409,114	7/1/2008
Elwood Community School Corporation	249	7.000%	487,500	7/1/2009
M.S.D. of North Posey County	250	5.000%	412,500	7/1/2008
Tipton Community School Corporation	251	9.000%	412,500	7/1/2008
Switzerland County School Corporation	254	7.000%	156,773	1/1/2008

* Equals Treasury Payment Date.

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds, Series 2003 A

Series 1993 Advancements Refunded

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Final Maturity*</u>
Scott County School District #1	255	7.000%	207,076	7/1/2009
Adams Central Community Schools	256	6.000%	412,157	7/1/2008
Bremen Public Schools	257	5.000%	412,500	7/1/2008
Vincennes Community School Corporation	258	9.000%	487,500	7/1/2009
East School District (Greene County)	259	6.000%	251,875	7/1/2009
Hobart Township Community School Corporation	260	5.000%	487,500	7/1/2009
Southwest Parke Community School Corporation	261	6.000%	283,171	1/1/2009
Argos Community Schools	262	6.000%	487,500	7/1/2009
Franklin County Community School Corporation	263	5.000%	487,293	7/1/2009
Logansport Community School Corporation	264	5.000%	371,576	1/1/2009
Center Grove Community Schools	265	5.000%	450,000	1/1/2009
West Central Community School Corporation	266	5.000%	374,900	7/1/2009
Hamilton Southeastern Schools	267	5.000%	525,000	1/1/2010
Flat Rock-Hawcreek School Corporation	268	5.000%	413,971	1/1/2010
Union Township School Corporation	270	6.000%	487,500	7/1/2009
Westfield Washington Schools	271	6.000%	375,241	7/1/2009
Manchester Community Schools	272	6.000%	637,500	7/1/2011
Jennings County Schools	273	5.000%	487,500	7/1/2009
Rochester Community School Corporation	274	6.000%	562,500	7/1/2010
Southeast Dubois County School Corporation	276	6.000%	534,836	7/1/2010
Middlebury Community Schools	277	5.000%	525,000	1/1/2010
Northern Wells Community Schools	278	5.000%	525,000	1/1/2010
Jac-Cen-Del Community School Corporation	279	6.000%	600,000	1/1/2011
Avon Community School Corporation	281	6.000%	347,146	7/1/2010
M.S.D. of Wabash County	282	6.000%	562,500	7/1/2010
Lake Station Community Schools	283	6.000%	167,682	1/1/2011
Wa-Nee Community Schools	284	6.000%	174,604	7/1/2010
Whitley County Consolidated Schools	285	6.000%	180,531	7/1/2011
Laebanon Community School Corporation	286	6.000%	581,659	1/1/2011
South Central Community School Corporation	287	6.000%	105,167	1/1/2011
Shoals Community School Corporation	288	6.000%	600,000	1/1/2011
South Ripley Community School Corporation	289	6.000%	637,500	7/1/2011
M.S.D. of Shakamak	290	6.000%	587,864	1/1/2011
South Dearborn Community School Corporation	291	6.000%	632,943	7/1/2011
Peru Community School Corporation	292	6.000%	637,500	7/1/2011
Shelbyville Central Schools	293	6.000%	600,000	1/1/2011
Plainfield Community School Corporation	294	6.000%	637,500	7/1/2011
Triton School Corporation	295	6.000%	637,044	7/1/2011
South Montgomery Community School Corporation	302	6.000%	321,098	7/1/2011
Lebanon Community School Corporation	306	5.000%	599,858	1/1/2011
Mt. Vernon Community School Corporation	307	5.000%	637,500	7/1/2011

* Equals Treasury Payment Date.

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APPENDIX B

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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APPENDIX B

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. STRUCTURE OF STATE GOVERNMENT.....	1
Division of Powers.....	1
Executive Department.....	1
Legislative Department.....	2
Judicial Department.....	2
III. FISCAL POLICIES.....	3
Fiscal Years.....	3
Accounting System.....	3
Fund Structure.....	3
Budget Process.....	4
State Budget Agency.....	4
Budget Committee.....	4
Budget Development.....	4
Revenue Projections.....	5
Budget Report.....	5
Appropriations.....	5
Intra-Agency Transfers.....	5
Contingency Appropriations.....	6
State Board of Finance.....	6
Cash Management and Investments.....	6
Audits.....	7
Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the State.....	7
IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS.....	7
Operating Revenues.....	7
Major General Fund and PTR Fund Revenue Sources.....	8
Sales and Use Taxes.....	8
Corporate Income Taxes.....	8
Individual Adjusted Gross Income Tax.....	8
Wagering Tax.....	8
Other Operating Revenues.....	9
Revenue History.....	9
Lottery and Gaming Revenues.....	9
Operating Expenditures.....	10
Local School Aid.....	10
Higher Education.....	11
Property Tax Relief.....	11
Medicaid.....	11
Department of Correction.....	12
Other.....	12
Expenditure Limits.....	12
Fund Balances.....	13
Rainy Day Fund.....	13
Tuition Reserve.....	13
Medicaid Reserve.....	13
Combined General and PTR Fund.....	13
Financial Results of Operations.....	14
Federal Aid.....	16

V. STATE INDEBTEDNESS	18
Constitutional Limitations on State Debt.....	18
Other Debt, Obligations	18
Obligations Payable from Possible State Appropriations	18
State Office Building Commission	18
Transportation Finance Authority—Highway Financing.....	19
Transportation Finance Authority—Aviation Financing	19
Recreational Development Commission	19
Indiana Bond Bank.....	20
Debt Statement—Obligations Payable from Possible State Appropriations.....	20
Debt Service Schedule—Obligations Payable from Possible State Appropriations	22
Debt Ratios	24
Authorized but Unissued Debt.....	24
Debt Issued in Fiscal Year 2003	25
Fee Replacement Appropriations to State Universities and Colleges	25
Contingent Obligations	26
Transportation Finance Authority—Toll Road Financing	26
Indiana Bond Bank.....	26
Development Finance Authority	27
Debt Statement—Contingent Obligations	28
Other Entities Issuing Debt.....	28
VI. STATE RETIREMENT SYSTEMS	29
Public Employees’ Retirement Fund	29
Other State Plans.....	30
State Teachers’ Retirement Fund.....	31
State Police Pension Trust	32
VII. ECONOMIC AND DEMOGRAPHIC INFORMATION	33
General.....	33
Population	33
Employment.....	34
Income	35
Gross State Product.....	37
Exports.....	37
VIII. LITIGATION	38

SCHEDULE OF TABLES

Table IV-1	State Operating Revenues	9
Table IV-2	Expenditures and Appropriations	10
Table IV-3	General Fund and Property Tax Replacement Fund Combined Statement of New Actual and Estimated Unappropriated Reserve	17
Table V-1	Schedule of Long Term Debt Obligations Payable from Possible State Appropriations	21
Table V-2	Scheduled Principal and Interest Payments Payable from Possible State Appropriations	23
Table V-3	Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income	24
Table V-4	Schedule of Fee Replacement Debt	25
Table V-5	Schedule of Long Term Debt Contingent Obligations	28
Table VI-1	Public Employees' Retirement Fund (State-Related Portion Only)	30
Table VI-2	Other State Plans Pension Funds Summary of Results of Actuarial Valuation	31
Table VI-3	Indiana State Teachers' Retirement Fund	32
Table VII-1	Population, including Selected Indiana MSAs	33
Table VII-2	Demographic Profile	34
Table VII-3	Year-Ending Non-Farm Employment	34
Table VII-4	Year-Ending Non-Farm Employment by Sector	35
Table VII-5	Unemployment Rate	35
Table VII-6	Growth in Per Capita Personal Income	36
Table VII-7	Growth in Median Household Income	36
Table VII-8	Poverty Rates	36
Table VII-9	Gross State Product (GSP) and Gross Domestic Product (GDP)	37
Table VII-10	Exports	37
Table VII-11	Indiana's Leading Export Industries and Destinations	38

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I. INTRODUCTION

This Financial and Economic Statement (the “Statement”) and “Appendix B” for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information is compiled on behalf of the State by the Indiana State Budget Agency and the Public Finance Office and includes information and data taken from the State Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

This Appendix B is dated as of June 2, 2003. The State expects to update the entire Statement not less than annually. The status of this Statement or any updates or supplements may be obtained by contacting the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, Indiana 46204, Telephone (317) 233-4332. This Statement should be read in its entirety, together with any supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The Treasurer of State is responsible for holding and investing all State revenues and disburses money upon warrants issued by the Auditor of State. The Treasurer of State is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The Auditor of State maintains the State’s centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most

State employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State Constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the twelve-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the State Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for example, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenues, a portion of individual income tax receipts, and a portion of Gaming Revenues. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTR Fund are sometimes discussed in this Appendix B as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. An example is the State Office Building Commission.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The State Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections Revenue projections are prepared by the Indiana Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. By statute, the Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make “contingency appropriations” to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the “Finance Board”) consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenues.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund, and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the Treasurer of State may invest State funds. These investments include securities (a) that are backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and (b) issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise, as well as (c) other securities specified in statute. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) and (b) above and certain deposit accounts insured by the Public Deposit Insurance Fund. No more than 25% of the total portfolio invested by the Treasurer of State may be made in securities maturing from two to five years, and no such security may have a maturity in excess of five years.

Audits

The State Board of Accounts is a State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2002 (the “2002 Financial Report”) is incorporated in this Appendix B by reference. So long as the State is deemed to be an “obligated person” under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually such a financial report with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) in accordance with SEC Rule 15c2-12: Bloomberg Municipal Repository, FT Interactive Data, DPC Data, Inc., and Standard & Poor’s J.J. Kenny Repository.

A copy of the 2002 Financial Report may be obtained from the NRMSIRs. In addition, the 2002 Financial Report may be found at: <http://www.in.gov/idfa/pfo>

The 2002 Financial Report that may be found at the referenced website is intended to provide financial information about the State prepared and published by the Auditor of State. It is not, by itself, intended to present investment information about any particular bond issue, including the bonds offered with this Appendix B, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement for a particular bond issue, including the bonds offered with this Appendix B.

The 2002 Financial Report that may be found at the referenced website speaks only as of its date. There should be no implication that there has been no change in the financial or other affairs of the State or any other person described in this Statement or in the 2002 Financial Report after the date of the 2002 Financial Report.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as “State Operating Revenues” and “Operating Revenues.” Operating Revenues are defined as the total of General Fund and PTR Fund revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with “DSH revenues” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenues constitute additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor

people. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Major General Fund and PTR Fund Revenue Sources

Sales and use and corporate and individual income taxes are the three primary sources of State Operating Revenues. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of Operating Revenues beginning in Fiscal Year 2003. Table IV-1 provides annual revenues by source and growth rates over time. The following is a summary of Operating Revenues.

Sales and Use Taxes. The General Assembly increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. The sales and use tax rates were last increased in Fiscal Year 1983.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective CY 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003 all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25.0 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25.0 million and \$50.0 million, 25% of receipts between \$50.0 million and \$75.0 million, 30% of receipts between \$75.0 million and \$150.0 million, and 35% of adjusted gross receipts in excess of \$150.0 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33.0 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations,

and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3%.

Revenue History

Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1. The table also includes actual revenue for prior Fiscal Years as well as forecasted revenue for Fiscal Years 2003, 2004 and 2005.

Table IV-1
State Operating Revenues
(Millions of Dollars)

	<u>Sales Tax</u>	<u>Individual Income</u>	<u>Corporate Income</u>	<u>Wagering Tax</u>	<u>Other</u>	<u>Total</u>
FY 1998	3,250.9	3,434.8	1,015.5	N/A	720.2	8,421.4
FY 1999	3,396.0	3,699.3	1,044.4	N/A	743.5	8,883.2
FY 2000	3,651.4	3,753.3	985.3	N/A	752.7	9,142.7
FY 2001	3,686.8	3,779.8	855.3	N/A	730.1	9,052.0
FY 2002	3,761.4	3,540.8	709.4	N/A	697.2	8,708.8
Forecasted FY 2003 ⁽¹⁾	4,224.6	3,715.5	550.3	425.4	959.7	9,875.5
Forecasted FY 2004 ⁽¹⁾	4,883.0	3,839.2	558.8	537.0	874.5	10,692.5
Forecasted FY 2005 ⁽¹⁾	5,122.1	4,033.0	578.4	591.3	867.5	11,192.3
<u>% Change from Prior Year</u>						
FY 1999	4.5%	7.7%	2.8%		3.2%	5.5%
FY 2000	7.5%	1.5%	-5.7%		1.2%	2.9%
FY 2001	1.0%	0.7%	-13.2%		-3.0%	-1.0%
FY 2002	2.0%	-6.3%	-17.1%		-4.5%	-3.8%
Forecasted FY 2003 ⁽¹⁾	12.3%	4.9%	-22.4%	N/A	37.7%	13.4%
Forecasted FY 2004 ⁽¹⁾	15.6%	3.3%	1.5%	26.3%	-8.9%	8.3%
Forecasted FY 2005 ⁽¹⁾	4.9%	5.0%	3.5%	10.1%	-0.8%	4.7%

⁽¹⁾ The forecasted Operating Revenues are adjusted to reflect the tax increases enacted in 2002, which include a sales tax increase from 5% to 6% effective December 1, 2002; a cigarette tax increase from \$0.155 to \$0.555 effective July 1, 2002; and wagering tax increases, effective July 1, 2002. A portion of wagering tax revenues are deposited in the PTR Fund. See "Financial Results of Operations" and "Federal Aid."

Source: State Budget Agency

Lottery and Gaming Revenues

By statute, certain revenues from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of \$250.0 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250.0 million is to remain in the PTR Fund. For a description of wagering taxes, see "Major General Fund and PTR Fund Revenue Sources—Wagering Tax."

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities. All lottery and gaming revenues deposited to BIF are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million for Fiscal Year 2003.

For Fiscal Year 2002, Gaming Revenues totaling \$472.4 million were collected by the State from the following sources:

Hoosier Lottery	\$166.1 million
Riverboat gaming	285.1 million
Horse racing	3.4 million
Charity gaming	4.0 million
Interest earnings	13.7 million

Source: State Budget Agency

Operating Expenditures

The legislature appropriated \$20,709.7 million of General Fund and PTR Fund revenues for Fiscal Years 2002 and 2003; this represents a 5.5% increase from the previous biennium. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and Correction. These five categories constitute 83.8% of all appropriations for Fiscal Years 2002 and 2003. Table IV-2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 1998 through 2005.

Table IV-2
Expenditures and Appropriations
(Millions of Dollars)

	<u>1998⁽¹⁾</u>	<u>1999⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>2001⁽¹⁾</u>	<u>2002⁽¹⁾</u>	<u>2003⁽²⁾</u>	<u>2004⁽³⁾</u>	<u>2005⁽³⁾</u>
Local School Aid	3,423.1	3,691.8	3,894.0	4,172.8	3,889.5	4,230.3	4,253.6	4,302.5
Higher Education	1,180.5	1,248.0	1,331.5	1,331.3	1,294.7	1,400.3	1,474.4	1,527.7
Property Tax Relief	873.3	946.7	1,078.6	1,220.0	1,209.9	1,755.8	2,115.2	2,243.9
Medicaid	913.3	948.5	986.1	1,110.9	1,138.0	1,248.8	1,266.4	1,266.4
Correction	403.9	410.9	473.5	547.2	582.1	577.5	589.3	591.4
Other	1,504.3	1,802.4	1,829.8	1,635.5	1,592.9	1,590.6	1,581.9	1,573.9
Total	8,298.4	9,048.3	9,593.5	10,017.7	9,707.1	10,803.3	11,280.8	11,505.8

⁽¹⁾ Actual expenditures

⁽²⁾ Estimated expenditures. See "Financial Results of Operations" and "Federal Aid."

⁽³⁾ Appropriations made by 2003 General Assembly under HEA 2003-1001. See "Financial Results of Operations" and "Federal Aid."

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation passed in 2002, the State will provide approximately 85% of the school corporations' general fund budgets. See "Operating Expenditures—Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis will increase by an average of 3.5% for Fiscal Year 2004 and 1.1% for Fiscal Year 2005 when compared to Fiscal Year 2003 appropriations, with each school corporation receiving a guaranteed minimum increase of 1.0% in tuition support. Combined local school aid expenditures for Fiscal Year 2002 from the Combined General and PTR Fund totaled \$3,889.5 million, a decrease of 6.8% from Fiscal Year 2001, and constituted 40.1% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making local school aid payments in Fiscal Year 2002. Combined local school aid appropriations for Fiscal Year 2003 from the Combined General and PTR Fund total \$4,241.3 million, an increase of 1.4% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$4,230.3 million. Local school aid appropriations for Fiscal Year 2004 from the Combined General and PTR Fund total \$4,253.6 million, an increase of 0.3% from Fiscal Year 2003 appropriations. Local school aid appropriations for Fiscal Year 2005 from the Combined General and PTR Fund total \$4,302.5 million, an increase of 1.1% from Fiscal Year 2004. See "Financial Results of Operations."

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. The State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech State College, Purdue University, University of Southern Indiana and Vincennes University. Expenditures for higher education for Fiscal Year 2002 totaled \$1,294.7 million, a decrease of 2.7% from Fiscal Year 2001, and constituted 13.3% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making higher education aid payments in Fiscal Year 2002. Higher education appropriations for Fiscal Year 2003 total \$1,411.1 million, an increase of 0.01% when compared to Fiscal Year 2002; however, estimated expenditures for Fiscal Year 2003 are \$1,400.3 million, making higher education the third largest operating expenditure. Higher education appropriations for Fiscal Year 2004 total \$1,474.4 million, an increase of 4.5% from Fiscal Year 2003. Higher education appropriations for Fiscal Year 2005 total \$1,527.7 million, an increase of 3.6% from Fiscal Year 2004. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. See "Financial Results of Operations" and "STATE INDEBTEDNESS."

Property Tax Relief. The third largest operating expenditure, payable solely from the PTR Fund, is for local property tax relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit, which reduces residential property taxes by 10%. Property tax relief expenditures for Fiscal Year 2002 totaled \$1,209.9 million, a decrease of 0.8% from Fiscal Year 2001, and constituted 12.5% of Combined General and PTR Fund expenditures for Fiscal Year 2002 for this category. Actual expenditures for property tax relief in Fiscal Year 2002 constituted 102.6% of appropriations. This increase in expenditures is a result of changes to the Property Tax Relief Credit, increasing the Homestead Credit to 20%, and increasing local school aid. Property tax relief appropriations for Fiscal Year 2003 totaled \$1,731.4 million, an increase of 46.8% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$1,755.8 million, making property tax relief the second largest operating expenditure. Property tax relief appropriations for Fiscal Year 2004 total \$2,115.2 million, an increase of 22.2% from Fiscal Year 2003. Property tax relief appropriations for Fiscal Year 2005 total \$2,243.9 million, an increase of 6.1% from Fiscal Year 2004.

Legislation passed in 2002 replaces the PTR Credits with a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. See "Operating Expenditures—Local School Aid."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. State General Fund expenditures for Medicaid for Fiscal Year 2002 totaled \$1,138.0 million, an increase of 2.4% from Fiscal Year 2001, and constituted 11.7% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Medicaid in Fiscal Year 2002 constituted 97.2% of appropriations for the category. Medicaid appropriations for Fiscal Year 2003 from the General Fund total

\$1,248.8 million, an increase of 6.6% from Fiscal Year 2002. Estimated expenditures for Medicaid in Fiscal Year 2003 are \$1,248.8 million. Medicaid appropriations for each of Fiscal Year 2004 and Fiscal Year 2005 from the General Fund are \$1,266.4 million, an increase of 1.4% from Fiscal Year 2003.

In Fiscal Year 2002, 32.7% of Medicaid spending was funded from the General Fund. State dedicated funds and Federal funds constitute the balance of Medicaid spending. Nursing home care is the largest component of total Medicaid spending (State and Federal), about \$827.0 million for Fiscal Year 2002, an increase of 2.6% from Fiscal Year 2001. Prescription drug costs are the second largest, and fastest growing, component of total Medicaid spending, with costs of \$627.7 million in Fiscal Year 2002, an increase of 18.9% from Fiscal Year 2001. Hospital services is the third largest component of total Medicaid spending, about \$574.4 million for Fiscal Year 2002, a decrease of 0.2% from Fiscal Year 2001.

Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment steadily increased from 454,643 people in 1998 to 737,036 people in 2002, or by 62.1%.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. State General Fund expenditures for Correction for Fiscal Year 2002 totaled \$582.1 million, an increase of 6.4% from Fiscal Year 2001, and constituted 6.0% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Correction in Fiscal Year 2002 constituted 102.9% of appropriations for this category. This increase is a result of transferring the medical services fund from the State Family and Social Services Agency to the Department of Correction. Correction appropriations for Fiscal Year 2003 total \$569.0 million, an increase of 0.5% from Fiscal Year 2002. Estimated expenditures for Correction for Fiscal Year 2003 are \$577.5 million. Correction appropriations for Fiscal Year 2004 total \$589.3 million, an increase of 3.6% from Fiscal Year 2003. Correction appropriations for Fiscal Year 2005 total \$591.4 million, an increase of 0.4% from Fiscal Year 2004.

Population is one of the most significant drivers of Correction expenditures. Correctional population steadily increased from 19,720 in 1998 to 23,172 in 2002, or by 17.5%. Population is projected to increase 9.7% by the end of Fiscal Year 2005.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. General Fund expenditures for all other expenditure categories for Fiscal Year 2002 totaled \$1,592.9 million, a decrease of 2.6% from Fiscal Year 2001, and constituted 16.4% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Other Categories in Fiscal Year 2002 constituted 93.7% of appropriations for the category. Other Categories appropriations for Fiscal Year 2003 from the General Fund total \$1,872.5 million, an increase of 10.2% from Fiscal Year 2002. Other Categories appropriations for Fiscal Year 2004 from the General Fund total \$1,581.9 million, a decrease of 15.5% from Fiscal Year 2003. Estimated expenditures for Fiscal Year 2003 are \$1,590.6 million. Other Categories appropriations for Fiscal Year 2005 from the General Fund total \$1,573.9 million, a decrease of 0.5% from Fiscal Year 2004.

Expenditure Limits. In 2002, the General Assembly enacted a law to establish that the maximum annual percentage change in State government expenditures be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenues to local governments, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average

increase in Indiana non-farm personal income and six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The spending cap limits expenditure increases to 3.5% per annum for each of Fiscal Year 2004 and Fiscal Year 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the “Rainy Day Fund.” One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income (“API”) for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* “Financial Results of Operations.”

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. *See* Table IV-3 for Rainy Day Fund balances and other information about this Fund.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. *See* Table IV-3 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Medicaid Reserve is currently unfunded; in 2001, the General Assembly authorized the money in the Medicaid Reserve to be used to fund Medicaid obligations during Fiscal Years 2002 and 2003. *See* Table IV-3 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenues from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used (1) to replace local property tax levies (“PTR Credits”), which were reduced through PTR Credits under the same statute that created the PTR Fund; and, (2) for local school aid. To the extent that the PTR Fund does not have sufficient revenues to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. As previously stated, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes discussed in this statement as a single, combined fund.

Financial Results of Operations

Fiscal Years 2002 and 2003. *Introduction.* The General Assembly passed a State budget for Fiscal Years 2002 and 2003 that called for Combined General and PTR Fund spending of \$10,211.9 million in Fiscal Year 2002 (an increase of 1.6% from FY 2001), and \$10,497.8 million in Fiscal Year 2003 (an increase of 2.8% from FY 2002). In passing the biennial budget, the General Assembly authorized \$666.4 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2002 and \$510.9 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2003. As a result, the General Assembly anticipated spending a total of \$1,177.3 million more than forecasted Operating Revenue during the current budget biennium. (Forecasted Operating Revenues do not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated, by the General Assembly for budget purposes.)

As the national economic recession took hold, forecasted State Operating Revenues were hard hit. The recession effectively erased approximately \$1,640.0 million of forecasted Operating Revenues during Fiscal Years 2002 and 2003, further exacerbating the budget deficit.

Fiscal Year 2002. To address the revenue shortfall and reduce the budget deficit in Fiscal Year 2002, the State administration used general statutory authority and measures specifically authorized in the biennial budget, including transfers from the following funds and accounts to the General Fund:

Lottery and Gaming Surplus Account:	\$200.0 million
Rainy Day Fund	277.1 million
Medicaid Reserve and Contingency Fund	100.0 million

In addition, the Finance Board authorized transfers from a number of dedicated funds and accounts to the General Fund and the PTR Fund:

Build Indiana Fund	\$247.5 million
Veterans Memorial School Construction Fund	37.0 million
State Highway Fund	30.0 million
Other Dedicated Funds, Accounts	127.0 million

(All but \$45.2 million of the \$441.5 million of Finance Board-authorized transfers were used in Fiscal Year 2002.)

The State also delayed making \$373.8 million of local school aid and higher education payments in Fiscal Year 2002.

In addition to the transfers and payment delays, the State administration required agencies to cut their operating budgets by 7% and implemented hiring and salary freezes, resulting in \$145.1 million of reduced spending in Fiscal Year 2002 (excluding reductions in forecasted Medicaid spending).

At the end of Fiscal Year 2002, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$534.2 million or 6.1% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund). *See* Table IV-3 for actual Fiscal Year 2002 results, including actual State Operating Revenues, transfers and fund balances.

Fiscal Year 2003. Near the end of Fiscal Year 2002, the General Assembly met in a special session called by Governor O'Bannon and passed HEA 2002-1001 (ss), which included an estimated \$559.7 million in budget relief as well as tax restructuring. Higher sales and use taxes and increased taxes on gambling and tobacco products were designed to address the revenue shortfall, reduce the budget deficit and offset some of the cost of the tax restructuring. Streamlined corporate income taxes and the phase out of personal property taxation of business inventories were designed to encourage business investment. Additional property tax relief for homeowners was expected to reduce the potentially negative effects of the state-wide property tax reassessment which is currently underway. (Tax restructuring will increase future Combined General and PTR Fund expenditures, especially for property tax relief.)

Even taking into account forecasted increases in State Operating Revenue resulting from the enactment of HEA 2002-1001 (ss), the Fiscal Year 2003 budget continues to be out of balance. The soft economy, threat of war, war and worse than normal winter weather resulted in lower than forecasted sales tax revenues. The State administration is again using general statutory authority and measures specifically authorized in the biennial budget to reduce the budget deficit, including fund and account transfers, payment delays (another \$328.4 million in Fiscal Year 2003) and spending cuts. The Budget Agency is working to achieve Fiscal Year 2003 reversions totaling \$421.5 million through reduced spending by State agencies (including holding Medicaid spending to below forecast), and elimination of unspent capital and operating accounts. By the end of Fiscal Year 2003, the State administration expects to have reduced Medicaid spending from forecast by \$250.0 million.

At the end of Fiscal Year 2003, the Budget Agency estimates that the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) will be \$510.4 million or 5.1% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund).

See Table IV-3 for estimated Fiscal Year 2003 results, including State Operating Revenues, transfers, reversions and fund balances.

Fiscal Years 2004 and 2005. The General Assembly passed a State budget for Fiscal Years 2004 and 2005 that calls for Combined General and PTR Fund spending of \$11,280.6 million in Fiscal Year 2004 (an increase of 1.9% from Fiscal Year 2003) and \$11,505.7 million in Fiscal Year 2005 (an increase of 2.0% from Fiscal Year 2004). In passing the biennial budget, the General Assembly authorized \$810.8 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2004 and \$645.5 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2005. As a result, the General Assembly anticipates spending a total of \$1,456.3 million more than forecasted Operating Revenue during the forthcoming budget biennium. (Forecasted Operating Revenues do not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated, by the General Assembly for budget purposes.)

The biennial budget was based on forecasted Fiscal Year 2004 revenue of \$10,692.5 million (an increase of 8.3% from final forecasted Fiscal Year 2003 revenue) and forecasted Fiscal Year 2005 revenue of \$11,192.3 million (an increase of 4.7% from forecasted Fiscal Year 2004 revenue). The forecasted revenue increase for Fiscal Year 2004 primarily reflects the implementation of the Fiscal Year 2002 tax increases and expected improvements in the national economy, while the revenue increase for Fiscal Year 2005 primarily reflects expected improvements in the national economy.

To balance the budget, the General Assembly authorized the transfer of dedicated funds to the General Fund or the PTR Fund, including:

Rainy Day Fund	\$220.0 million
Pension Stabilization Fund	380.0 million
Public Deposit Insurance Fund	50.0 million
Other Dedicated Funds	57.0 million

In addition, the General Assembly specifically authorized the Budget Agency, with the approval of the Governor and after Budget Committee review, (a) "to withhold allotments of any or all appropriations . . . , if it is considered necessary . . . to prevent a deficit financial situation"; and (b) transfer from the Rainy Day Fund to the

General Fund “an amount necessary to maintain a positive balance” in the General Fund. Rainy Day Fund balances may not be sufficient to provide further budget relief.

Funding the State share of Medicaid assistance and Department of Correction needs are two of the challenges the State administration will confront in managing the budget for Fiscal Years 2004 and 2005. The General Assembly effectively maintained Medicaid appropriations for Fiscal Years 2004 and 2005 at Fiscal Year 2003 levels and limited growth in Correction appropriations for the budget biennium. The budget for Medicaid was established despite a State forecast that (1) estimated additional forecasted expenditures of \$60.3 million in Fiscal Year 2004 and \$157.9 million in Fiscal Year 2005, and (2) assumed that the State administration would realize \$355.0 million of Medicaid spending reductions from forecast during the budget biennium. The Medicaid budget for Fiscal Years 2004 and 2005 means that the State will need to realize an additional \$218.2 million of Medicaid spending reductions from forecast during Fiscal Years 2004 and 2005 to avoid overspending the appropriations.

Department of Correction appropriations increase modestly in Fiscal Years 2004 and 2005; however, the State administration is concerned that the Correction budget is inadequate to meet the demands of a growing prisoner population, including the operation of new correctional facilities. *See* “Operating Expenditures—Correction.”

The Budget Agency has advised State agencies receiving General Fund appropriations that it will reduce through the allotment process (i) 5.0% of each agency’s appropriation for Fiscal Years 2004 and 2005, and (ii) 50.0% of each agency’s appropriation for repair and rehabilitation expenditures for such fiscal years. The Budget Agency’s action is not applicable to Medicaid program or Correction expenditures.

At the end of Fiscal Year 2004, the Budget Agency estimates that the State’s Total Combined Balance will be \$295.8 million or 2.7% of Operating Revenues. At the end of Fiscal Year 2005, the Budget Agency estimates that the State’s Total Combined Balance will be \$324.8 million or 2.9% of Operating Reserves. *See* Table IV-3 for estimated Fiscal Year 2004 and Fiscal Year 2005 results, including estimated State Operating Reserves, transfers and fund balances.

Table IV-3 sets forth the Budget Agency’s unaudited end-of year combined balance statements and estimates and projections, including revenues and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency’s “working” statements may differ from the results included in the 2002 Financial Report and the Auditor of State’s other year-end comprehensive annual financial reports. Forecasted revenues were developed by the Technical Forecast Committee, and actual revenues may be higher or lower than those forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2004 and 2005.

Federal Aid

The Budget Agency is evaluating the impact of the Jobs and Growth Tax Relief Act of 2003, which was recently passed by Congress and signed by the President. The foregoing discussion and Table IV-3 do not take into account the new federal act.

Under the new federal act, the Budget Agency expects that an additional \$168.1 million will be available to fund Medicaid expenditures in Fiscal Year 2004. In addition, the Budget Agency estimates that approximately \$207.0 million will be available in Fiscal Year 2004 to fund “essential governmental expenditures” and “unfunded mandates” within the meaning of the new federal act.

Although the new federal act eases some pressure on the budget for Fiscal Years 2004 and 2005, the Budget Agency has advised State agencies that it will continue to enforce General Fund spending reductions through the allotment process for operating and repair and rehabilitation expenditures.

Table IV-3
General Fund and Property Tax Replacement Fund
Combined Statement of New Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	(1) Estimated FY2003	(1) Estimated FY2004	(1) Estimated FY2005
Resources					
Working Balance at July 1	832.6	18.6	0.0	0.9	0.2
Current Year Resources					
Forecast Revenue	9,052.0	8,708.9	9,875.5	10,692.5	11,192.3
DSH	70.9	87.0	66.3	66.3	66.3
HEA 1001-2003 ⁽¹⁾	-	-	(26.0)	176.0	68.1
Other Revenue Sources of Transfers In					
Transfer from Lottery & Gaming Surplus Acct. (BIF)	-	200.0	175.0	-	-
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	206.0	107.0	29.9
Transfer From (To) Rainy Day Fund	46.3	277.1	30.0	220.0	-
Total Current Year Resources	9,272.6	9,769.3	10,326.8	11,261.8	11,356.6
Total Resources	10,105.2	9,787.9	10,326.8	11,262.7	11,356.8
Uses: Appropriations, Expenditures and Reversions					
Appropriations					
Budgeted Appropriations	10,159.3	10,211.9	11,013.8	11,280.6	11,505.7
Adjustments to Appropriations ⁽²⁾	(15.7)	93.1	135.0	-	-
Deficiency Appropriations	66.8	0.1	19.4	-	-
Appropriations Transfer (FY 2000 capital appropriations)	(88.3)	-	-	-	-
Medicaid Shortfall	58.5	-	-	-	-
K-12 Education, HEA 1196 – 2002	-	-	(148.1)	-	-
Total Appropriations	10,180.6	10,305.1	11,020.1	11,280.6	11,505.7
Other Expenditures and Transfers					
Judgments and Settlements ⁽³⁾	7.0	3.8	55.7	8.0	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	11,075.8	11,288.6	11,513.7
Payment Delays					
Higher Education Allotment	-	(94.2)	(2.9)	-	-
Tuition Support Distribution	-	(279.5)	(11.0)	-	-
Property Tax Replacement Credit	-	-	(314.5)	-	-
Reversions	(102.9)	(145.1)	(421.5)	(26.0)	(185.4)
Total Net Uses	10,084.7	9,790.1	10,325.9	11,262.6	11,328.3
Auditor's Adjustment	1.9	(2.2)	-	-	-
General Fund Reserve Balance at June 30	18.6	0.0	0.9	0.2	28.4
Reserved Balances					
Medicaid Reserve	100.0	-	-	-	-
Tuition Reserve	265.0	265.0	265.0	265.0	265.0
Rainy Day Fund ⁽⁴⁾	526.0	269.2	244.5	30.6	31.4
Total Combined Balances	909.6	534.2	510.4	295.8	324.8
Payment Delay Liability	-	(373.8)	(702.1)	(702.1)	(702.1)
Combined Balance as a Percent of Operating Revenue	10.0%	6.1%	5.1%	2.7%	2.9%

Totals may not add as a result of rounding.

¹ Forecasted revenue is based on information provided by the Technical Forecast Committee, while other resources and uses are estimated by the Budget Agency. The resources identified in the HEA 1001-2003 line result from actions authorized by the General Assembly pursuant to HEA 1001-2003, the State budget for Fiscal Years 2004 and 2005. See "Financial Results of Operations" and "Federal Aid."

² Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total. FY 2003 includes an additional appropriation of \$135.0 million for motor vehicle excise tax obligations not met by the Lottery and Gaming Surplus Account.

³ Represents the estimated cost to the State of judgments and other legal and equitable claims, as well as the Budget Agency's best current estimate of the cost of Medicaid expenditures that will be incurred by the State, and paid from the General Fund, in FY 2003 as a result of the Indiana Supreme Court decision in *Humphreys v. Day*. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. See "LITIGATION."

⁴ Includes \$31.0 million of loans to local governments authorized by the General Assembly. Such loans are illiquid.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority and the Recreational Development Commission, which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the "Building Commission") is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; (f) providing communications system infrastructure; and (g) providing laboratory facilities.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the Building Commission has issued revenue bonds to finance or refinance various projects. For a list of the indebtedness of the Building Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for authorized projects through issuance and sale of “Hoosier Notes.” Hoosier Notes are payable from revenue bonds issued by the Building Commission.

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. For a list of the indebtedness of the TFA for Highway Financing, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA has issued revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). For a list of the indebtedness of the TFA for Airport Facilities, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. In addition, the TFA issued revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. For a list of the indebtedness of the TFA for the Aviation Technology Center, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing.”

Recreational Development Commission. The Indiana Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State’s Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission has issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in

the State (the “Park Projects”). For a list of the indebtedness of the Recreation Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Indiana Bond Bank. A series of bonds issued by the Indiana Bond Bank are also payable from possible State appropriations, the Series 1998B Refunding Bonds issued to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds to finance construction of the State’s Animal Disease and Diagnostic Laboratory (“ADDL”) at Purdue University, West Lafayette. *See* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* “Contingent Obligations—Indiana Bond Bank” and Table V-5.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, long-term debt that is subject to possible State appropriations as of June 30, 2002.

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations
(as of June 30, 2002)

Issuer/Series	Original Par Amount	Ending Balance 6/30/01	(Redeemed)/ Issued	Ending Balance 6/30/02
Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 10,475,690	\$ (671,076)	\$ 9,804,613
Series 1993A	42,410,000	33,335,000	(2,050,000)	31,285,000
Subtotal	\$ 69,079,824	\$ 43,810,690	\$ (2,721,076)	\$ 41,089,613
Government Center North				
Series 1990B	\$ 77,123,542	\$ 32,492,747	\$ (2,081,244)	\$ 30,411,503
Series 1993B	107,555,000	89,230,000	(4,145,000)	85,085,000
Subtotal	\$ 184,678,542	\$ 121,722,747	\$ (6,226,244)	\$ 115,496,503
Government Center South				
Series 1990C	\$ 18,063,800	\$ 7,089,520	\$ (453,430)	\$ 6,636,090
Series 1990D	110,675,000	53,710,000	-	53,710,000
Series 1993C	28,440,000	9,095,000	(420,000)	8,675,000
Series 2000B	43,400,000	43,400,000	(700,000)	42,700,000
Subtotal	\$ 200,578,800	\$ 113,294,520	\$ (1,573,430)	\$ 111,721,090
Correctional Facilities				
Series 1995A	\$ 54,025,000	\$ 52,790,000	\$ (455,000)	\$ 52,335,000
Series 1995B	47,975,000	45,475,000	(1,330,000)	44,145,000
Series 1998A	93,020,000	93,020,000	(2,450,000)	90,570,000
Series 1999A	96,785,000	94,020,000	(3,110,000)	90,910,000
Series 2000A	44,800,000	44,800,000	(1,600,000)	43,200,000
Series 2001A	66,600,000	66,600,000	-	66,600,000
Series 2002A	128,110,000	-	128,110,000	128,110,000
Subtotal	\$ 531,315,000	\$ 396,705,000	\$ 119,165,000	\$ 515,870,000
TOTAL SOBC	\$ 985,652,166	\$ 675,532,957	\$ 108,644,250	\$ 784,177,206
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 36,107,632	\$ (1,764,015)	\$ 34,343,617
Series 1992A	74,035,000	35,285,000	-	35,285,000
Series 1993A	193,531,298	146,116,298	(6,935,000)	139,181,298
Series 1996B	27,110,000	26,200,000	(250,000)	25,950,000
Series 1998A	175,360,000	175,360,000	(3,110,000)	172,250,000
Series 2000A	269,535,000	269,535,000	-	269,535,000
Subtotal	\$ 812,069,689	\$ 688,603,930	\$ (12,059,015)	\$ 676,544,915
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 52,040,000	\$ (5,640,000)	\$ 46,400,000
Series 1995A	29,720,000	27,585,000	(880,000)	26,705,000
Series 1996A	137,790,000	137,790,000	(745,000)	137,045,000
Subtotal	\$ 368,830,000	\$ 217,415,000	\$ (7,265,000)	\$ 210,150,000
Aviation Technology Bonds				
Series 1992A	\$ 11,630,000	\$ 9,700,000	\$ (9,700,000)	\$ -
Series 2002A	10,095,000	-	10,095,000	10,095,000
Subtotal	\$ 21,725,000	\$ 9,700,000	\$ 395,000	\$ 10,095,000
TOTAL TFA	\$ 1,202,624,689	\$ 915,718,930	\$ (18,929,015)	\$ 896,789,915
Recreation Commission				
Series 1994	\$ 19,285,000	\$ 18,575,000	\$ (275,000)	\$ 18,300,000
Series 1997	6,600,000	5,995,000	(215,000)	5,780,000
Subtotal	\$ 25,885,000	\$ 24,570,000	\$ (490,000)	\$ 24,080,000
TOTAL RDC	\$ 25,885,000	\$ 24,570,000	\$ (490,000)	\$ 24,080,000
ADDL, Series 1998B	\$ 10,830,000	\$ 8,645,000	\$ (665,000)	\$ 7,980,000
TOTAL ADDL	\$ 10,830,000	\$ 8,645,000	\$ (665,000)	\$ 7,980,000
TOTAL ALL BONDS	\$ 2,224,991,855	\$ 1,624,466,887	\$ 88,580,235	\$ 1,713,027,121

Source: State Budget Agency

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased).

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Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations

Issuer/Series	FY 2003	FY 2004	FY 2005	FY 2006	Thereafter
Building Commission					
Government Center Parking					
Series 1990A	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 14,765,625
Series 1993A	3,689,389	3,689,981	3,683,284	3,678,836	26,823,347
Subtotal	\$ 5,637,439	\$ 5,638,031	\$ 5,631,334	\$ 5,626,886	\$ 41,588,972
Government Center North					
Series 1990B	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 45,799,800
Series 1993B	8,603,809	8,597,976	8,592,396	8,581,026	85,340,884
Subtotal	\$ 14,645,689	\$ 14,639,856	\$ 14,634,276	\$ 14,622,886	\$ 131,140,684
Government Center South					
Series 1990C	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 9,995,065
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	65,546,605
Series 1993C	875,280	878,780	875,738	876,105	8,699,688
Series 2000B ⁽¹⁾	8,799,000	8,686,500	8,461,500	8,319,000	19,849,500
Subtotal	\$ 14,697,360	\$ 14,588,360	\$ 14,360,318	\$ 14,218,185	\$ 104,090,858
Correctional Facilities					
Series 1995A	\$ 3,320,028	\$ 3,321,861	\$ 3,322,248	\$ 3,321,149	\$ 83,265,715
Series 1995B	3,858,843	3,853,508	3,853,695	3,849,435	57,231,528
Series 1998A	8,574,151	8,572,990	8,560,298	8,554,491	93,591,571
Series 1999A	7,870,431	7,869,119	7,857,575	7,853,675	109,144,269
Series 2000A ⁽¹⁾	4,104,000	4,102,500	4,000,500	3,993,000	53,292,000
Series 2001A ⁽¹⁾	3,996,000	5,697,000	5,683,500	5,664,000	95,500,500
Series 2002A	6,427,101	8,052,351	8,408,969	8,400,936	184,282,084
Subtotal	\$ 38,150,554	\$ 41,469,329	\$ 41,686,785	\$ 41,636,686	\$ 676,307,667
TOTAL SOBC	\$ 73,131,042	\$ 76,335,576	\$ 76,312,713	\$ 76,104,663	\$ 953,128,181
TFA					
Highway Revenue Bonds					
Series 1990A	\$ 6,150,288	\$ 6,150,288	\$ 6,150,288	\$ 4,255,288	\$ 45,945,488
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	53,910,370
Series 1993A	13,853,698	13,848,263	13,858,773	12,608,425	190,384,262
Series 1996B	3,989,010	3,989,708	3,981,450	3,961,450	15,784,925
Series 1998A	12,098,890	12,108,846	12,088,328	18,669,828	214,203,386
Series 2000A	17,210,301	17,097,176	16,982,801	14,425,301	492,556,782
Subtotal	\$ 55,701,567	\$ 55,593,661	\$ 55,461,020	\$ 56,319,671	\$ 1,012,785,213
Airport Facilities Bonds					
Series 1992A	\$ 9,064,853	\$ 9,385,525	\$ 9,704,613	\$ 10,040,600	\$ 26,185,312
Series 1995A	2,420,893	2,469,868	2,512,723	2,558,595	30,514,282
Series 1996A	8,216,608	8,219,933	8,220,583	8,218,060	173,188,550
Subtotal	\$ 19,702,354	\$ 20,075,326	\$ 20,437,919	\$ 20,817,655	\$ 229,888,145
Aviation Technology Bonds					
Series 2002A	\$ 420,565	\$ 685,565	\$ 955,765	\$ 955,495	\$ 11,444,530
Subtotal	\$ 420,565	\$ 685,565	\$ 955,765	\$ 955,495	\$ 11,444,530
TOTAL TFA	\$ 75,824,484	\$ 76,354,550	\$ 76,854,701	\$ 78,092,821	\$ 1,254,117,888
Recreation Commission					
Series 1994	\$ 1,419,395	\$ 1,460,203	\$ 1,492,435	\$ 1,531,172	\$ 25,194,154
Series 1997	526,030	525,333	523,869	521,616	6,741,750
Subtotal	\$ 1,945,425	\$ 1,985,536	\$ 2,016,304	\$ 2,052,789	\$ 31,935,904
TOTAL RDC	\$ 1,945,425	\$ 1,985,536	\$ 2,016,304	\$ 2,052,789	\$ 31,935,904
ADDL, Series 1998B	\$ 1,042,894	\$ 1,043,475	\$ 1,042,434	\$ 1,044,740	\$ 5,734,930
TOTAL ADDL	\$ 1,042,894	\$ 1,043,475	\$ 1,042,434	\$ 1,044,740	\$ 5,734,930
TOTAL ALL BONDS	\$ 151,943,845	\$ 155,719,137	\$ 156,226,152	\$ 157,295,013	\$ 2,244,925,903

⁽¹⁾ Debt service on variable rate debt is determined by assuming an interest rate cap of 6%.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past nine years are reflected in Table V-3. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

<u>Fiscal</u> <u>Year</u>	<u>Population</u>	<u>Personal</u> <u>Income</u> ⁽¹⁾	<u>Outstanding Debt</u> <u>Subject to Appropriation</u>	<u>Debt/Capita</u> ⁽²⁾	<u>Debt/Income</u> ⁽³⁾
1993	5,739,019	\$ 114,675	\$ 1,001,051,854	\$ 174	0.9%
1994	5,793,526	121,537	1,030,787,646	178	0.8
1995	5,851,459	126,525	1,036,962,646	177	0.8
1996	5,906,013	132,890	1,119,537,646	190	0.8
1997	5,955,267	139,459	1,116,717,640	188	0.8
1998	5,998,880	149,318	1,240,092,643	207	0.8
1999	6,044,969	154,405	1,228,372,647	203	0.8
2000	6,080,485	164,543	1,569,341,152	258	1.0
2001	6,126,743	168,622	1,624,466,887	265	1.0
2002	6,159,068	173,932	1,713,027,121	278	1.0

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2002 State Debt Medians, the median debt per capita for all states was about \$573

(3) According to Moody's 2002 State Debt Medians, the median percentage for all states was about 2.3%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1999 General Assembly authorized the Building Commission to issue additional bonds to finance construction of a mental health facility in Evansville. The Building Commission is in the process of constructing the Evansville facility and anticipates completion in the second quarter of 2003. Total construction costs are not expected to exceed \$30 million.

The 2001 and 2003 General Assemblies authorized the Building Commission to issue bonds to finance four regional health centers. The Building Commission is planning and designing the centers. Construction of the new Logansport center is under way. The total construction cost for each center is expected to be between \$35 million and \$55 million.

The 2002 General Assembly authorized the Building Commission to issue bonds to finance the construction of a public safety communications network. The Commission expects to build out the network in four phases; the first phase is expected to cost no more than \$30 million and be completed by the end of the first quarter of 2004. The General Assembly dedicated certain State Bureau of Motor Vehicles fees to pay lease rentals for the network.

The 2003 General Assembly authorized the Building Commission to issue the bonds to finance the construction of laboratory facilities for the State Police, Department of Health and the Department of Toxicology. The Building Commission is planning and designing the laboratories, but has not established a time line for construction. The General Assembly dedicated certain State Bureau of Motor Vehicles fees to pay lease rentals for the State Police portion of the laboratory facilities.

The Building Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes." The Building Commission is authorized to issue not to exceed \$150 million in

Hoosier Notes. As of June 30, 2002, \$100.4 million of Hoosier Notes were outstanding. The type, amount and timing of additional revenue bonds to refinance Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, interest rates, credit markets, conditions and costs and progress of construction.

In 1997 and 2002, the General Assembly authorized the TFA to issue bonds to finance additional State highway expansion and improvement projects. The TFA has approximately \$719.5 million in additional bonding capacity for such projects and expects to issue as much as \$500.0 million of additional bonds in the third quarter of 2003.

Debt Issued in Fiscal Year 2003

In December 2002, the Recreation Commission issued \$14.4 million of revenue bonds to refund a part of the Commission's outstanding 1994 revenue bonds and to develop a new State park in Prophetstown, near Lafayette. Approximately \$3.9 million of the proceeds were used for park development.

In January 2003, the Building Commission issued approximately \$83.5 million of revenue bonds to refund Hoosier Notes related to the construction of the new State Museum.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes issued by each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations appropriated for Fiscal Year 2003 are shown below.

Table V-4
Schedule of Fee Replacement Debt

	Estimated Amount of Debt Outstanding June 30, 2002	Fiscal Year 2003 Fee Replacement Appropriations
Ball State University	\$ 77,745,000	\$ 6,335,738
Indiana University ⁽¹⁾	399,038,469	52,400,706
Indiana State University	60,870,000	6,542,859
Ivy Tech State College	75,895,000	8,611,473
Purdue University ⁽²⁾	212,465,335	33,672,479
University of Southern Indiana	55,146,277	3,993,193
Vincennes University	<u>12,629,042</u>	<u>1,853,421</u>
Total	\$ <u>893,789,123</u>	\$ <u>113,409,869</u>

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Contingent Obligations

Certain State-authorized entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors have issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. For a list of the indebtedness of the TFA for Toll Road Financing, *see* “Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“INDOT”) has entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. INDOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by INDOT are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, INDOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, INDOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or INDOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority—Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to local governments and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds or notes issued by the Bond Bank with a debt service reserve under Indiana Code 5-1.5-5 are considered “moral obligation bonds”; however, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds and issued by the Bond Bank, and a debt service reserve fund replacement appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1.0 billion plus (a) not to exceed \$200.0 million for certain qualified entities that operate as rural electric membership corporations

or as corporations engaged in the generation and transmission of electric energy and (b) not to exceed \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

For a list of Bond Bank bonds that are eligible for debt service reserve fund replacement appropriations, *see* “Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-5, the Development Finance Authority’s revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issue. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agreed that the Development Finance Authority would seek appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the Development Finance Authority is paying the Qualitech Bonds and the Heartland Bonds, using appropriations made by the General Assembly.

The Steel Dynamics Bonds have been redeemed and replaced with a loan from one or more commercial banks. The debt service reserve fund established for the Steel Dynamics Bonds remains in place, together with the Development Finance Authority’s agreement to seek State appropriations to fund debt service under certain circumstances.

The Steel Dynamics Bonds financed a portion of the State’s incentives for a substantial economic development project in DeKalb County. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State’s incentives for a substantial economic development project in Hendricks County. Steel Dynamics purchased that project, and the Development Finance Authority anticipates that Steel Dynamics will begin additional production there upon completion of capital improvements and required permitting. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State’s incentives for a substantial economic development project in Vigo County (Terre Haute). A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-5.

Debt Statement—Contingent Obligations

Table V-5 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2002. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See “Schedule of Long Term Debt—Contingent Obligations.”

Table V-5
Schedule of Long Term Debt
Contingent Obligations
(as of June 30, 2002)

Issuer/Series	Original Par Amount	Ending Balance 6/30/01	(Redeemed)/ Issued	Ending Balance 6/30/02
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	46,295,000	(1,995,000)	44,340,000
Series 1993	76,075,000	47,770,000	(8,595,000)	39,175,000
Series 1996	134,795,000	132,710,000	(620,000)	132,090,000
ITFA TOTAL	<u>\$ 652,585,000</u>	<u>\$ 252,975,000</u>	<u>\$ (11,170,000)</u>	<u>\$ 241,805,000</u>
Bond Bank				
Special Program Pool				
Series 1993A	\$ 7,975,000	\$ 6,440,000	\$ (275,000)	\$ 6,165,000
Series 1993B	14,915,000	13,055,000	(790,000)	12,265,000
Series 1994B	7,835,000	6,205,000	(425,000)	5,780,000
Series 1995A	4,540,000	3,855,000	(165,000)	3,690,000
Series 1995A	13,280,000	11,740,000	(355,000)	11,385,000
Series 1997A	6,295,000	5,910,000	(165,000)	5,745,000
Series 1997B	22,855,000	22,115,000	(1,730,000)	20,385,000
Series 1997C	5,010,000	5,010,000	-	5,010,000
Series 1998A	6,485,000	6,270,000	(185,000)	6,085,000
Series 2000A	31,495,000	31,495,000	-	31,495,000
Series 2000A (Refunding)	32,860,000	24,210,000	(9,025,000)	15,185,000
Series 2001A (Refunding)	20,840,000	20,840,000	(1,315,000)	19,525,000
Series 2001A	7,055,000	7,055,000	(110,000)	6,945,000
Series 2001B	9,500,000	9,500,000	-	9,500,000
Series 2002A	42,910,000	0	42,910,000	42,910,000
Series 2002C	3,940,000	0	3,940,000	3,940,000
BB TOTAL	<u>\$ 237,790,000</u>	<u>\$ 173,700,000</u>	<u>\$ 32,310,000</u>	<u>\$ 206,010,000</u>
Development Finance Authority				
Qualitech Steel	\$ 33,100,000	\$ 28,700,000	\$ (1,200,000)	\$ 27,500,000
Steel Dynamics	21,400,000	17,600,000	(1,100,000)	16,500,000
Heartland Steel	13,800,000	12,300,000	(400,000)	11,900,000
DFA TOTAL	<u>\$ 68,300,000</u>	<u>\$ 58,600,000</u>	<u>\$ (2,700,000)</u>	<u>\$ 55,900,000</u>
TOTAL ALL BONDS	<u>\$ 958,675,000</u>	<u>\$ 485,275,000</u>	<u>\$ 18,440,000</u>	<u>\$ 503,715,000</u>

Source: State Budget Agency

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantees for industrial development or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 29-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority ⁽¹⁾	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority ⁽²⁾	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to finance and construct, a broad variety of projects, including public ports, throughout Indiana
Indiana Secondary Market for Secondary Loans, Inc. ⁽³⁾	I.C. 20-12-21.2 Authorized 1980	Provide funds for secondary market for higher education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in downtown Indianapolis

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local

government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2001, there were 206,111 active and retired members participating in PERF from State and local government with assets totaling \$8,355,549,799. PERF assets were allocated 57% to equities and 43% to fixed income.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and now pays the employee contributions to PERF for State employees.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last four valuation dates.

Table VI-1
Public Employees' Retirement Fund
(State-Related Portion Only)

As of July 1,	1998	1999	2000	2001*
Funded Status				
Actuarial Value of Assets	\$ 1,626,450,185	\$ 1,828,584,443	\$ 1,960,018,018	\$ 2,063,626,964
Actuarial Accrued Liability	1,491,985,623	1,583,485,563	1,701,091,436	1,896,505,744
Unfunded/(Overfunded) AAS	(134,464,562)	(245,098,880)	(258,926,582)	(167,121,220)
Funded Ratio	109.0%	115.5%	115.2%	108.8%
Contribution History				
Annual Required Contribution	\$ 81,545,985	\$ 67,481,016	\$ 61,761,627	\$ 66,559,482
Actual Employer Contribution	80,145,933	77,821,378	84,353,750	76,218,663
Contribution Rate**	5.7%	5.0%	5.0%	5.2%

* Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2001.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Defined Benefit Plan, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table VI-2 highlights the actuarial valuation findings for these plans as of July 1, 2001.

Table VI-2
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2001)

	Judge's Retirement System	Legislators' Defined Benefit Plan	Excise Police & Conservation Officers' Retirement Plan	Prosecuting Attorney's Retirement Fund
<u>Funded Status</u>				
Actuarial Value of Assets	\$ 109,729,884	\$ 4,665,517	\$ 36,921,405	\$ 10,564,489
Actuarial Accrued Liability	188,610,419	5,508,146	52,024,033	20,417,483
Unfunded/(Overfunded) AAL	78,880,535	842,629	15,102,628	9,852,994
Funded Ratio	58.2%	84.7%	71.0%	51.7%
<u>Contribution History*</u>				
Annual Required Contribution	\$ 10,756,808	\$ 177,559	\$ 1,717,593	\$ 375,145
Actual Employer Contribution	12,278,630	170,144	2,205,711	275,266

* Contribution History is for Plan Year 7/1/00 – 6/30/01

Source: Actuarial Valuation Reports, July 1, 2001.

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2002, \$168.8 million was expended from the pension relief fund, and on June 30, 2002, the pension relief fund balance was \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs TRF, and TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2002, TRF had 115,456 total members with assets totaling \$5,722,753,180. TRF's assets were allocated 43% to equities and 57% to fixed income.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employer was authorized to elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

1. The State capped its pension benefit obligation by (a) shifting the obligation for all teachers hired after July 1, 1995 to local school districts and (b) implementing a level percent of payroll current funding approach (the “New Plan”). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the Plan.

2. The New Plan is intended to be responsible for the total cost of teachers transferring to other school corporations after 1995. The TRF Board began addressing the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to 9.0%, the rate recommended by TRF’s actuary.

3. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to reduce future General Fund appropriations for TRF liabilities beginning in Fiscal Year 2006. Payments from the Pension Stabilization Fund were intended to equal the difference between (1) the then current year liability and (2) 106% of the prior year’s payment from the General Fund for the liability. As of June 30, 2002, the Pension Stabilization Fund balance was \$1.787 billion. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenues, as well as investment income.

To balance the budget for Fiscal Years 2004 and 2005, and to fund current teacher pension obligations for Fiscal Years 2004 and 2005, the General Assembly authorized transfer of a total of \$380.0 million from the Pension Stabilization Fund to the General Fund. In addition, the General Assembly redirected Hoosier Lottery profits that otherwise would have been deposited in the Pension Stabilization Fund. Unless remedied, such actions will reduce the effectiveness of the Pension Stabilization Fund and result in the need for greater appropriations to fund future TRF obligations.

Table VI-3
Indiana State Teachers’ Retirement Fund

As of June 30,	1998	1999	2000	2001	2002
Funded Status of Closed Plan					
Actuarial Value of Assets	\$ 4,130,388,693	\$ 4,730,666,420	\$ 5,209,889,286	\$ 5,363,497,813	\$ 5,555,352,257
Actuarial Accrued Liability	11,481,766,668	2,172,501,450	12,409,275,218	12,695,787,691	13,497,778,031
Unfunded/(Overfunded) AAL	7,351,377,975	7,441,835,030	7,199,382,932	7,332,289,878	7,942,425,774
Funded Ratio	36.0%	38.9%	42.0%	42.2%	41.2%
Funded Status of New Plan*					
Actuarial Value of Assets	\$ 135,923,370	\$ 240,053,914	\$ 368,157,499	\$ 447,261,751	\$ 621,222,272
Actuarial Accrued Liability	298,407,427	498,422,993	705,790,225	838,038,282	1,166,883,205
Unfunded AAL	162,484,057	258,369,079	337,632,726	380,776,531	545,660,933
Funded Ratio	45.5%	48.2%	52.2%	54.0%	53.2%

* Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.

Source: Indiana State Teachers’ Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2002.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member’s highest salary in 36 consecutive months or a third year trooper’s pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See “FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs, State.”

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The “Crossroads of America,” Indiana is within a day’s drive of nearly two-thirds of the United States’ population. Indiana benefits from proximity to major markets and population centers—both national and international. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana’s major cities has been consistently below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

During the past decade, Indiana’s economy grew in size and diversity. With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana’s economy ranks fifteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel. From 1992 to 2002, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 45%, followed by a 27% gain in Education and Health Services and a 23% increase in Leisure and Hospitality. The Manufacturing sector is 20.4% of total employment in Indiana, a decrease from 23.4% in 1992, and is the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana’s population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population, including Selected Indiana MSAs

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>% Change 1980-2000</u>
Indiana	5,490,210	5,544,159	6,080,485	10.8
Indianapolis MSA	1,166,575	1,249,822	1,607,486	37.8
Fort Wayne MSA	354,156	363,811	502,141	41.8
Evansville- Henderson MSA	235,403	235,946	251,366	6.8
Gary Primary MSA	642,733	604,526	631,362	-1.8
South Bend MSA	241,617	247,052	265,559	9.9
United States	226,542,199	248,709,873	281,421,906	24.2

Source: U.S. Census Bureau

**Table VII-2
Demographic Profile**

Age (Years)	<u>Indiana</u>		<u>United States</u>	
	<u>1990</u>	<u>2000</u>	<u>1990</u>	<u>2000</u>
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 20.4% of total employment, it was the slowest growing sector from 1992 to 2002. The fastest growing sectors were Professional & Business Services, which grew by 45.1% from 1992 to 2002, followed by Education & Health Services (26.8% growth) and Leisure & Hospitality (22.6% growth). Indiana lost 19,600 jobs between December 2001 and December 2002, representing a 0.7% decline. Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

**Table VII-3
Year-Ending Non-Farm Employment
(Seasonally Adjusted)**

<u>Year</u>	<u>Total Employment</u>		<u>% Change</u>		<u>Net New Jobs</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>
1992	2,580,400	109,266,000	2.5%	1.1%	64,000
1993	2,669,700	112,034,000	3.5	2.5	89,300
1994	2,757,200	115,918,000	3.3	3.5	87,500
1995	2,807,100	118,118,000	1.8	1.9	49,900
1996	2,836,700	120,916,000	1.1	2.4	29,600
1997	2,881,100	124,270,000	1.6	2.8	44,400
1998	2,952,900	127,297,000	2.5	2.4	71,800
1999	3,005,400	130,406,000	1.8	2.4	52,500
2000	2,975,700	132,319,000	-1.0	1.5	-29,700
2001	2,900,000	130,890,000	-2.5	-1.1	-75,700
2002	2,880,400	130,670,000	-0.7	-0.2	-19,600
Average Annual Growth Rate (1992-2002):			1.1	1.8	
Total Growth (1992-2002):			11.6	19.6	300,000

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-Ending Non-Farm Employment by Sector
(Seasonally Adjusted in Thousands)

<u>Sector</u>	<u>1992</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>	<u>Growth 1992-2002</u>
Mining	7.2	0.3%	7.1	0.2%	-1.4%
Construction	116.7	4.5	137.5	4.8	17.8
Manufacturing	604.1	23.4	586.5	20.4	-2.9
Trade, Transportation & Utilities	527.9	20.5	579.0	20.1	9.7
Information	42.2	1.6	42.0	1.5	-0.5
Financial Activities	130.5	5.1	140.5	4.9	7.7
Professional & Business Services	169.0	6.5	245.2	8.5	45.1
Education & Health Services	277.6	10.8	352.0	12.2	26.8
Leisure & Hospitality	214.9	8.3	263.4	9.1	22.6
Other Services	100.8	3.9	109.1	3.8	8.2
Government	389.5	15.1	418.1	14.5	7.3
Total	<u>2580.4</u>	<u>100.0</u>	<u>2880.4</u>	<u>100.0</u>	<u>11.6</u>

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as % of U.S.</u>
1992	6.6%	7.5%	88.0%
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.7	5.6	83.9
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0
2001	4.4	4.7	93.6
2002	5.1	5.8	87.9

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2002, Indiana's per capita personal income reached \$28,240, increasing as a whole 2.6% from 2001. During the past ten years, Indiana's personal income grew at an average annual rate of 3.94%. From 1991 to 2001, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.69% for Indiana as compared to 0.97% for the United States. In 2001, median income was \$41,192 or 96% of the U.S. average, up from 90% in 1991.

Table VII-6
Growth in Per Capita Personal Income

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1992	19,181	20,960	6.5 %	4.7 %
1993	19,982	21,539	4.2	2.8
1994	20,978	22,340	5.0	3.7
1995	21,623	23,255	3.1	4.1
1996	22,501	24,270	4.1	4.4
1997	23,418	25,412	4.1	4.7
1998	24,891	26,893	6.3	5.8
1999	25,543	27,880	2.6	3.7
2000	27,010	29,760	5.7	6.7
2001	27,522	30,413	1.9	2.2
2002	28,240	30,941	2.6	1.7
Average Annual Growth Rate (1992-2002):			3.94%	3.97%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(Two-Year Average)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1991	\$ 34,849	\$ 38,754	-1.9 %	-2.1 %
1992	34,805	38,032	-0.1	-1.9
1993	35,417	37,784	1.8	-0.7
1994	34,236	37,904	-3.3	0.3
1995	35,711	38,712	4.3	2.1
1995	38,995	37,857	9.2	2.3
1997	41,126	40,284	5.5	1.8
1998	42,931	41,436	4.4	2.9
1999	43,283	42,764	0.8	3.2
2000	41,937	43,211	-3.1	1.0
2001	41,192	42,695	-1.8	-1.2
Average Annual Growth Rate (1991-2001):			1.69%	0.97%

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>
1991	15.7%	14.2%
1992	11.8%	14.8%
1993	12.2%	15.1%
1994	13.7%	14.5%
1995	9.6%	13.8%
1996	7.5%	13.7%
1997	8.8%	13.3%
1998	9.4%	12.7%
1999	6.7%	11.8%
2000	8.7%	11.3%
2001	8.5%	11.7%

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 1990, Indiana's Gross State Product has grown at average annual rate of 5.7%.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP)
(Millions of Dollars, Current Dollars)

	<u>1980</u>	<u>1990</u>	<u>2000</u>	Average Annual Growth Rate <u>1990-2000</u>	<u>% of Total</u>
Indiana	58,379	110,788	192,195	5.7%	100.0%
Agriculture	1,907	2,273	2,225	-0.2	1.2
Mining	493	640	674	0.5	0.4
Construction	2,685	5,074	9,836	6.8	5.1
Manufacturing	19,510	33,665	58,906	5.8	30.6
Transportation & Utilities	5,184	10,111	14,436	3.6	7.5
Wholesale Trade	3,586	6,452	11,448	5.9	6.0
Retail Trade	5,610	10,238	17,365	5.4	9.0
F.I.R.E.	7,219	13,691	25,422	6.4	13.2
Services	6,318	16,416	32,755	7.2	17.0
Government	5,868	12,228	19,128	4.6	10.0
United States	2,731,618	5,706,658	9,941,522	5.7	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2002, Indiana businesses exported \$14,923.0 million worth of goods to other countries, an increase of 3.4% from 2001. Since 1996, Indiana's exports have grown at an average annual rate of 5.2% as compared to 1.8% for the United States as a whole.

Table VII-10
Exports
(Millions of Dollars)

Year	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1996	10,983.6	622,827.1	- %	- %	1.8 %
1997	12,028.5	687,598.0	9.5	10.4	1.7
1998	12,318.1	680,474.2	2.4	(1.0)	1.8
1999	12,910.3	692,820.6	4.8	1.8	1.9
2000	15,385.8	780,418.6	19.2	12.6	2.2
2001	14,365.4	731,025.1	(6.6)	(6.3)	2.1
2002	14,923.0	693,257.3	3.9	(5.2)	2.2
Average Annual Growth Rate (1996-2002):			5.2	1.8	
Total Growth (1996-2002):			35.9	11.3	

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(Millions of Dollars)

<u>Export Industries</u>		<u>Export Destinations</u>	
<u>Industry</u>	<u>2002 Exports</u>	<u>Country</u>	<u>2002 Exports</u>
Vehicles, excluding Railway	\$4,141.1	Canada	\$6,819.3
Machinery	3,215.4	Mexico	1,942.5
Electrical Machinery	1,356.3	United Kingdom	1,006.7
Optic/Medical Instruments	903.0	Japan	714.1
Organic Chemical	892.3	France	637.6
Plastic	627.2	Germany	525.1
Miscellaneous Chemical	562.6	Netherlands	295.3
Pharmaceutical	546.6	Singapore	252.7
Iron and Steel	209.9	Korea	244.7
Aluminum	207.7	Australia	227.8
Other	2,265.9	Other	2,257.2

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State, which involve amounts exceeding \$5.0 million individually or in the aggregate as of May 28. With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5.0 million for injury to or death of all persons in that occurrence. This summary is not exhaustive as to the description of the specific litigation or claims described or as to all the litigation or claims pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981, holding the State responsible for most costs of the desegregation plan. Those costs have been part of the State budget since that time. In June 1998, an 18-year phase out of the desegregation plan was negotiated and approved by the District Court. State expenditures will be gradually reduced as the desegregation plan is phased out.

In July 1993, a class action was filed in Marion Superior Court alleging that the State failed to pay certain similarly classified State employees equal rates of pay. The class was certified by the Superior Court, and notification of the class is in process. No trial date has been set. The relief sought includes damages in an unspecified amount, as well as injunctive relief. If the plaintiffs are successful, the cost to the State would exceed \$5.0 million.

In a lawsuit filed against the State in January 1993, the Marion Superior Court invalidated that portion of a Medicaid disability standard that permits the State not to assist applicants who are unable to pay for treatment, but have a medical condition that will improve with treatment. After appeal and further trial court action, the Superior Court again invalidated the standard in December 1999, and the Indiana Court of Appeals affirmed the Superior Court's decision. The State sought transfer of the lawsuit to the Indiana Supreme Court. In July 2001, the Supreme Court denied transfer, affirming the Superior Court's court decision. The State and the plaintiffs agreed on a means for the State to comply with the judgment, and the agreement was approved by the Superior Court. The State has paid out approximately \$17.0 million in provider-submitted claims and issued refunds in the amount of approximately \$57,000. The deadline for submitting claims is August 11, 2003; however, an issue with implementation of the judgment could result in extension of the claims deadline.

In 1993, transportation providers filed suit against the State challenging the current Medicaid reimbursement program for transportation services. The State prevailed in both State and Federal trial courts, but

the plaintiffs appealed. The State won the State appeal, but the Federal appeal resulted in the suit being remanded to the State trial court. The State will retry the Federal issues before the State trial court. If the rules are enjoined, the State would forfeit savings to the Medicaid program in excess of \$5.0 million. Mediation was not successful. Trial is scheduled for April 2004.

In September 2000, various Lake County officials filed a lawsuit in State Tax Court alleging that residents of the county pay a disproportionate share of Hospital Care for the Indigent (“HCI”) property tax and, as a result, there is a violation of the Indiana constitution. In April 2002, the Tax Court decided that the HCI assessment was unconstitutional, but denied application for retroactive refunds and permitted the continued collection of the tax until January 1, 2003. The Indiana Supreme Court reversed the Tax Court. However, a taxpayer is seeking a rehearing by the Tax Court and the Supreme Court on Federal constitutional issues. In addition, other Lake County taxpayers filed suit in the United States District Court for the Northern District of Indiana challenging the HCI assessment. HCI tax revenues total approximately \$128.0 million per year.

In July 2000, a corporation operating a riverboat casino challenged the Indiana Department of Revenue’s interpretation of a riverboat gaming tax provision, alleging that the tax is not an “add-back” for corporate income tax purposes. The corporation and the State filed cross-motions for summary judgment. The motions are pending in State Tax Court. The potential cost to the State is between \$5.0 million and \$10.0 million; however, the cost to the State may be greater if a precedent is set that would benefit other riverboat casino operations.

In December 2000, property owners filed an action against the Indiana Department of Environmental Management, the Office of Environmental Adjudications and current and former agency officials alleging that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process, as well as a violation of the Indiana constitution. The plaintiffs are seeking in excess of \$30.0 million in damages plus attorney fees and costs. Upon completion of review of administrative issues by a State court, the Federal court will address issues under United States Code section 1983.

In May 2000, property owners along Fawn River in Northern Indiana filed an action against the Governor, the Indiana Department of Natural Resources and agency officials and employees alleging violations of the Clean Water Act, unconstitutional takings of property and violations of United States Code section 1983. The plaintiffs are seeking in excess of \$38.0 million in damages plus attorney fees and costs. The United States District Court granted the State’s motion for summary judgment; and the judgment is under appeal to the United States Court of Appeals for the Seventh Circuit.

In February 2001, a class action was brought on behalf of plaintiffs seeking injunctive relief to cause the State’s Family and Social Services Administration to provide residential mental health placement for a class of certain Medicaid-eligible children. At present, the State’s Medicaid program pays for mental health treatment, but does not pay for residential placement (room and board). If the plaintiffs are successful, the State would be required to pay for residential placement for the entire class. The size of the class is unknown, but it could include thousands of children. If so, the cost to the State could exceed \$5.0 million. On October 1, 2002, the United States District Court granted the plaintiffs’ motion for a summary judgment on the Medicaid issue. The judgment is under appeal to the United States Court of Appeals for the Seventh Circuit.

In 2001 and 2002, four entities operating riverboat casinos filed lawsuits alleging that their purchases of riverboats were not properly subject to Indiana sales and use tax. Each of the taxpayers alleges that the riverboats should not be taxed because the entities were entitled to a public transportation exemption and because the riverboats are considered to be real estate (not personal property) for Indiana property tax purposes. Collectively, the financial impact of the lawsuits is between \$7.0 million and \$8.0 million.

In April 2002, a class action was filed by six federal retirees, who allege that the State’s method for taxing federal employee retirement benefits violates Federal law because the method results in greater taxation than is collected from other retirees who collect Social Security. The total impact of this action exceeds \$5.0 million. The plaintiffs filed for a motion for summary judgment alleging that the applicable statute regarding class certification is unconstitutional. The Indiana Department of Revenue filed a response and a motion for a partial summary judgment.

In July 2002, a corporation filed a breach of contract action against the Indiana Department of Environmental Management (“IDEM”), alleging that IDEM failed to abide by the terms of an agreed order relating to environmental clean-up costs. The plaintiff is seeking \$5.0 million in damages. The State’s motion to dismiss the action, and the plaintiff’s motion for summary judgment, were denied.

In August 2002, an accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit against the State. The plaintiff seeks \$12.0 million in damages, alleging that State approved invoices for the plaintiff’s services, but then failed to abide by contractual provisions requiring the State to take steps to force Lake County to pay the invoices. A trial date has been set.

If successful, a bank’s claim for a refund of part of its 1995 financial institutions tax payment may exceed \$5.0 million. The bank alleges that the applicable statute violates the Commerce Clause of the United States constitution and that the Indiana Department of Financial Institutions incorrectly failed to credit out-of-state taxes paid by non-resident members of the bank’s unitary group. Trial is set on the statutory issue of whether certain members of the unitary group are properly members for financial institutions tax purposes.

In January 2003, a large business with property in the City of East Chicago filed an amended complaint in Marion Superior Court alleging that the City improperly reduced the assessed value reported by the plaintiff from \$1,210.3 million to \$750,000,000 as the City determined budgets, tax rates and tax levies for 2002. The plaintiff alleges that various local and State officials, including the State Department of Local Government Finance, did not follow proper procedures and, as a result, the plaintiff’s tax burden was increased. In addition, the plaintiff alleges that an applicable State statute permits a non-uniform and unequal rate of assessment in violation of the State constitution. The State has filed a motion to dismiss.

APPENDIX C

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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SPECIMEN MUNICIPAL BOND INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
 [LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

APPENDIX D

DEFINITIONS

“Account” means any of the accounts established, held and disbursed by the Trustee under the Indenture.

“Acquisition Agreement” means the Advancement Acquisition and Administration Agreement entered into by and among the Bond Bank, State Board of Finance, the Indiana State Board of Education and the Treasurer of the State evidencing: (i) the agreement of the Bond Bank to purchase, and the State Board of Finance to sell, the 2003 Agreements and the administration thereof; and (ii) the agreement amongst the parties thereto to have the 1993 Agreements administered pursuant thereto.

“Acquisition Fund” means the Fund as designated, established, held and disbursed by the Trustee for purchases of the 2003 Agreements pursuant to Article V of the Indenture.

“Act” means Indiana Code Title 5, Article 1.5, as amended.

“Advancement Payment” means the payment from the Treasurer of the State of Indiana to the Trustee representing that amount of principal and interest due under each respective Agreement as provided for in the Acquisition Agreement.

“Agreements” means, collectively, the 1993 Agreements and the 2003 Agreements.

“Authorized Officer” means the Chairman, the Vice Chairman, or the Executive Director of the Bond Bank.

“Bond or Bonds” means the Series 2003 A Bonds, the Series 2003 B Bonds and any refunding bonds issued under the Act and the Indenture.

“Bond Bank” means the Indiana Bond Bank, established and existing under the provisions of the Act as a body corporate and politic and an instrumentality, but not an agency, of the State, or any agency, board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Bond Bank by the Act shall be given by law.

“Bondholder,” “Owner,” or “Owners” or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Outstanding Bond or Bonds.

“Bond Insurer” means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York..

“Bond Register” means the registration books maintained by the Trustee as Registrar pursuant to Section 2.6 of the Indenture. “Bond Registrar” or “Registrar” means the Trustee acting as Registrar under the Indenture.

“Bond Year” means, with respect to the Bonds, the one-year period (or shorter period from the date of issue) ending on January 31, of each year.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or any other day on which banking institutions are authorized to close in the State.

“Cash Flow Certificate” means a Positive Cash Flow Certificate or an Improving Cash Flow Certificate.

“Closing Date” means the date on which the Bonds are delivered by the Bond Bank in exchange for payment therefor pursuant to the provisions of Section 3.1 of the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds, and the applicable judicial decisions, published rulings and regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954.

“Costs of Issuance Fund” means the fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Defeasance Obligations” means (a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGS”); (b) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (c) the interest component of Resolution Funding Corp. strips, in book entry form, which have been stripped by request to the Federal Reserve Bank of New York; (d) pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s or, if rated only by Standard & Poor’s, then only such municipal bonds as have been refunded with cash, direct U.S. or U.S. guaranteed obligations, or other AAA rated pre-refunded municipal bonds; or (e) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), or U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures – U.S. government guaranteed debentures, and U.S. public housing notes and bonds – U.S. government guaranteed public housing notes and bonds).

“DTC” means The Depository Trust Company, New York, New York, its successors and assigns, including without limitation (i) any surviving, resulting or transferee corporation, or any successor corporation appointed consistent with the Indenture and (ii) any direct or indirect participants in DTC, including, without limitation, any banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

“Escrow Account” means the account so designated, established, held and disbursed by the Escrow Agent pursuant to the Escrow Agreement.

“Escrow Agent” means J.P. Morgan Trust Company, National Association, with an office in Pittsburgh, Pennsylvania.

“Escrow Agreement” means the Escrow Agreement, dated as of July 1, 2003, by and among the Bond Bank, the 1993 Trustee and the Escrow Agent.

“Event of Default” means any one or more of the events specified as such in Section 7.1 of the Indenture.

“Fiscal Year” means the period commencing on the first day of July and terminating on the last day of June of the following calendar year.

“Fund” means any of the funds established, held and disbursed by the Trustee under the Indenture.

“General Account” means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

“General Fund” means the Fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Improving Cash Flow Certificate” means a certificate prepared by the Bond Bank in accordance with Section 6.17 of the Indenture to the effect that, in its judgment, the action proposed to be taken by the Bond Bank will result in the same or greater ability of the Bond Bank to pay projected required debt service on all Outstanding Bonds from Revenues expected to be received after taking such action in each Fiscal Year, together with other moneys in the Funds and Accounts under the Indenture (other than the Rebate Fund) available therefor in

accordance with Section 6.17 of the Indenture, than would otherwise have been the case without the taking of such action.

“Indenture” means the Indenture of Trust by and between the Bond Bank and the Trustee dated as of July 1, 2003, as supplemented or amended by any indenture supplemental, thereto or amendatory, thereof.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Securities” means those investments described in Section 13.7 of the Indenture.

“Moody’s” means Moody’s Investors Service, and its successors and assigns.

“1993 Agreement” means the various instruments by and between each respective School Corporation and the Board of Education acquired in connection with the issuance of the 1993 Bonds evidencing all or a part of the advancements and loans to School Corporations for capital projects and equipment.

“1993 Bonds” means the Bond Bank’s Common School Fund Advancement Purchase Funding Bonds of 1993, originally dated August 26, 1993, and currently outstanding in the aggregate principal amount of \$34,940,000.

“1993 Trustee” means J.P. Morgan Trust Company, National Association (successor trustee to Society National Bank, Indiana) with an office in Pittsburgh, Pennsylvania

“Opinion of Bond Counsel” means a written opinion of a nationally recognized law firm experienced in matters relating to the tax exemption of interest payable on obligations of states and their instrumentalities and political subdivisions under federal law, and which is acceptable to the Bond Bank and the Trustee.

“Outstanding” when used with reference to the Bonds, means at any date as of which the amount of outstanding Bond is to be determined, the aggregate of all Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under the Indenture, including any Bonds held by the Bond Bank, except:

- (a) Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

- (b) Bonds deemed to have been redeemed as provided in Section 4.6 or paid as provided in Article XI of the Indenture; and

- (c) Any Bond in lieu of or in substitution for which another Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the Indenture.

“Paying Agent” means the Trustee acting as Paying Agent under the Indenture.

“Policy” means the financial guaranty insurance policy issued by the Bond Insurer, insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Positive Cash Flow Certificate” means a certificate prepared in accordance with Section 6.17 of the Indenture to the effect that immediately after the occurrence or non-occurrence of a specific action or omission, as appropriate, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts and available therefor as provided in Section 6.17 of the Indenture, will at least be sufficient on each Interest Payment Date to provide payment of the principal of and interest on the Outstanding Bonds due on such date and the payment of Program Expenses, if any.

“Principal Payment Date” means an Interest Payment Date which is also a maturity date of any Bond.

“Program” means the program of the Bond Bank for purchasing the 2003 Agreements from the State Board of Finance with proceeds of the Bonds pursuant to the Act.

“Program Expenses” means the expenses authorized to be incurred by the Bond Bank in connection with the implementation and operation of the Program, including reasonable fees and expenses of the Trustee, fees and expenses of Bond Bank, counsel, bond counsel, professional consultants and other service professionals in connection with the implementation and administration of the Program, costs of preparing and delivering Cash Flow Certificates pursuant to Section 6.17 of the Indenture, costs of determining and complying with any and all requirements to rebate amounts to the United States of America pursuant to Section 5.9 of the Indenture, and other incidental and related costs.

“Purchase Price” means the purchase price of the right to receive certain of the payments made pursuant to the respective 2003 Agreements.

“Rebate Fund” means the fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Record Date” means the fifteenth calendar day of the month next preceding an Interest Payment Date.

“Redemption Account” means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Refunding Bonds” means Bonds issued pursuant to Section 3.2 of the Indenture and a Supplemental Indenture thereto.

“Revenues” means the income, revenues and profit of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Advancement Payments.

“School Corporations” means those school corporations located within Indiana that have entered into a 1993 Agreement or a 2003 Agreement.

“Series 2003 A Bonds means the Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A.

“Series 2003 B Bonds means the Common School Fund Advancement Purchase Funding Bonds, Series 2003 B.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Division of the McGraw Hill Companies, a corporation organized and existing under the laws of the State of New York, and its successors and assigns, and in the event that such corporation no longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Bond Bank with notice to the Trustee.

“State” means the State of Indiana.

“Supplemental Indenture” means any indenture supplemental to or amendatory of the Indenture as originally executed which is duly executed in accordance with the provisions of the Indenture.

“2003 Agreement” means the various instruments by and between each respective School Corporation listed in Appendix A and the Board of Education to be acquired or transferred for administration thereunder in connection with the issuance of the Bonds evidencing all or a part of the advancements and loans to School Corporations for capital projects and equipment.

“2003 Bonds” means, collectively, the Series 2003 A Bonds and the Series 2003 B Bonds.

“Trust Estate” means the trust estate defined, described and established under the granting clauses of the Indenture.

“Trustee” means Fifth Third Bank, Indiana, a State banking corporation, and any successor trustee pursuant to Section 8.5 or Section 8.8 of the Indenture at the time serving as Trustee thereunder.

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APPENDIX E

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Barnes & Thornburg, Bond Counsel
will deliver an opinion in substantially the following form:

July __, 2003

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank
Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A
Common School Fund Advancement Purchase Funding Bonds, Series 2003 B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of its Common School Fund Advancement Purchase Refunding Bonds, Series 2003 A, dated July __, 2003 (the "2003 A Bonds"), in the aggregate principal amount of \$35,550,000, and its Common School Fund Advancement Purchase Funding Bonds, Series 2003 B, dated July __, 2003 (the "2003 B Bonds"), in the aggregate principal amount of \$107,895,000, pursuant to Indiana Code 5-1.5, as amended, and the Indenture of Trust, dated as of July 1, 2003 (the "Indenture"), between the Issuer and Fifth Third Bank, Indiana, as trustee. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the 2003 A Bonds and the 2003 B Bonds (collectively, the "Bonds") and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the opinion of Bingham McHale LLP, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the reports of Crowe Chizek and Company LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

For purposes of this opinion, we have assumed, without making any factual, legal or other inquiry or investigation, and without expressing any opinion or stating any conclusion with respect thereto, that the interest on the Common School Fund Advancement Purchase Funding Bonds of 1993, dated as of August 15, 1993, and issued by the Issuer, the entire outstanding portion of which is to be defeased with, among other funds, a portion of the proceeds of the 2003 A Bonds, is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code").

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic, validly existing under the laws of the State of Indiana (the "State"), with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except for the opinion expressed in paragraph 5 hereof, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

6. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated June 12, 2003, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

APPENDIX F
SUMMARY OF CERTAIN PROVISIONS
OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month following the end of a six-month period, commencing with the period ending December 31, 2003, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

Preservation of Tax Exemption for the Bonds

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees to take all actions and not to fail to take any actions necessary in order to preserve and protect such excludability. Additionally, the Bond Bank covenants and agrees not to take any action or refrain from taking any action with respect to the investment of the proceeds of the Bonds or the investment or application of any payments under any Agreement or any other agreement or instrument entered into in connection therewith or with the issuance of the Bonds, including but not limited to any obligation to rebate certain funds to the United States of America, that would result in any Bonds being characterized as “arbitrage bonds” or that would adversely affect the excludability from gross income for federal income tax purposes of interest on any Bonds.

Covenants Concerning the Program

In order to provide for the payment of the principal of and interest on the Bonds and any Program Expenses of the Bond Bank permitted to be paid under the Indenture, the Bond Bank will from time to time, promptly and in a sound and economical manner consistent in all respects with the Act, the Indenture and sound banking practices and principles (i) do all acts and things as necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on all Advancement Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Agreements and to enforce all terms, covenants and conditions of the Agreements. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Agreement under which any School Corporation is in default. The Bond Bank is not required to take such actions noted herein if the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank’s failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

Covenants with Respect to Agreements

With respect to the Agreements, the Bond Bank covenants as follows:

(a) To diligently enforce and take all steps, actions and proceedings reasonably necessary in its judgment to protect its rights with respect to any Agreement and to enforce all terms, covenants and conditions of the Agreements, and to enforce, authorize or require the enforcement of all remedies available to the Board of Education under any Agreement, unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

(b) Not to permit or agree to any material change in any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such change.

(c) Not to sell or dispose of any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

Budgets

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year unless and until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the whole amount of principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Series 2003 B Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Series 2003 B Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Defeasance Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Defeasance Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, including any amounts required to be rebated to the United States of America, have been paid to or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) A default occurs in the due and punctual payment of the principal of (whether at stated maturity or on any date fixed for redemption) or interest on any Bond;

(b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 30 days after receipt of notice of such default by the Trustee;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is false or misleading when made, in any material respect, and there has been a failure to remedy such Event of Default within 30 days after receipt of notice of such Event of Default;

(d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 30 days after such filing;

(f) The Bond Bank files a petition in voluntary bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 30 days;

(h) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the Owners of all Outstanding Bonds of such Event of Default by registered or certified mail and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Agreements;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may then take any action with respect to the Agreements as the Trustee deems necessary or appropriate and in the best interest of the Owners of Bonds, subject to the terms of the Agreements;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds then Outstanding to be due and payable immediately.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds then Outstanding under the Indenture, and if indemnified as provided in the Indenture, the

Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Owners of the Bonds.

The Owners of a majority in aggregate principal amount of the Bonds then Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Bonds, and must do so upon the written request of the Owners of (a) two-thirds in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal of or interest on the Bonds or (b) more than one-half in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Owners of Bonds will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source and in the manner expressed in the Indenture and the Bonds.

Supplemental Indentures

The Bond Bank and the Trustee, without the consent of or notice to any of the Bondholders, may enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the Owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Bonds or the Trustee or either of them, or to make any change which, in

the judgment of the Trustee exercised in accordance with the standards under the Indenture does not materially and adversely affect the interests of the Bondholders;

(c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any Supplemental Indenture in order to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under any federal or state securities laws, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any Supplemental Indenture such other terms, conditions and provisions as may be permitted or required by the Trust Indenture Act of 1939, as amended, or any other federal or state statute; provided that any Supplemental Indenture shall not, in the judgment of the Trustee, be to the prejudice of any of the Owners of the Bonds;

(e) To provide for the issuance of bearer bonds in exchange for the fully registered Bonds originally authorized to be issued under the Indenture and to provide all necessary and appropriate supplements to the Indenture in connection therewith; provided however that no such supplements will be permitted unless there first has been filed with the Trustee and Bond Bank an unqualified Opinion of Bond Counsel to the effect that any such issuance of bearer bonds shall not have the effect of causing the interest on any Bonds to cease to be excluded from gross income for purposes of federal income taxation;

(f) To evidence the appointment of a co-trustee, successor Trustee, successor Bond Registrar, or successor Paying Agent; and

(g) To effect or facilitate the issuance of Refunding Bonds in accordance with the Indenture; and

With the exception of Supplemental Indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any Supplemental Indenture or Indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture. However, no Supplemental Indenture may permit or be construed as permitting, without the consent of the Owners of all Bonds then Outstanding under the Indenture, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium on, or reduction in the rate or extension of the time of payment of the interest on, any Bonds, or (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture other than a lien ratably securing all of the Bonds Outstanding under the Indenture, or (c) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (d) the creation of a privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, or (e) any amendment or modification of the trusts, powers, obligations, remedies, rights, duties or immunities of the Trustee without the written consent of the Trustee.

Bond Insurance

As long as the Policy is in effect and the Bond Insurer is not in default with respect to its payment obligations under the Policy, the Bond Insurer, acting alone, shall have the right to direct all remedies upon the occurrence and continuance of an Event of Default. The Bond Insurer shall be recognized as the registered owner of each 2003 Bond for the purposes of exercising all rights and privileges available to the holders of the 2003 Bonds. The Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a holder of the 2003 Bonds in accordance with the applicable provisions of the Indenture.

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APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF THE ACQUISITION AGREEMENT

The following is a summary of certain provisions of the Acquisition Agreement. This summary is qualified in its entirety by reference to the Acquisition Agreement.

Parties

The principal parties to the Acquisition Agreement are the Bond Bank, as purchaser of the Agreements, and the Board of Finance as seller of the Agreements. The Board of Education and the Treasurer of the State are also parties to the Acquisition Agreement for the purpose of making the representations and covenants more particularly described below.

Purpose

The Acquisition Agreement provides for the sale of the 2003 Agreements as more particularly described therein and in Appendix A to this Official Statement by the Board of Finance to the Bond Bank and the transfer of the 1993 Agreements to, and the administration thereof pursuant to, the Acquisition Agreement. In addition, the Board of Education and the Treasurer of the State each covenant to take certain actions more particularly described below relating to the Acquisition Agreement.

Representations

The parties to the Acquisition Agreement make to and for the benefit of each other various representations relating principally to the authority to enter into the Acquisition Agreement and to undertake the covenants made therein by each of the parties thereto.

Covenants

The Treasurer of the State and the Board of Education agree and covenant with the Bond Bank that they and each of them, as appropriate, will:

- (a) Provide to the Bond Bank all information, financial and otherwise, reasonably requested by the Bond Bank and in their possession relating to each Agreement, to each School Corporation that is a party to each Agreement, to the common school fund generally and to any other matter material to the Bonds;
- (b) Fully support and cooperate in obtaining all legislative and administrative actions to maintain in force the prohibition against the prepayment of amounts due from borrowing School Corporations under the Agreements to the maximum extent allowable by law;
- (c) As specifically requested by the Bond Bank from time to time, take all actions in the best interest of the Bond Bank relating to and exercise for the benefit of the Bond Bank to the maximum extent permissible under the Indiana Code, all rights (including without limitation the rights set forth in Indiana Code 21-1-5-5) and options available under the Indiana Code relating in any way to: (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Agreements, which remittance and payment is to be made not later than the first day of each January and July beginning July 1, 2003;

(d) Treat and regard at all times the Bond Bank in its capacity as owner of the Agreements as having a claim to funds of the State that is prior and superior to any claim of any party to such funds under any agreement similar to an Agreement. In particular, the position, status and rights of the Bond Bank are prior and superior to those of the parties and signatories to the Acquisition Agreement or to any claim or rights of any other division, department, agency or instrumentality of the State;

(e) Use at all times the proceeds of the issuance and sale of the Bonds used to acquire the 2003 Agreements to make additional advancements to School Corporations for the purpose of assisting such School Corporations with their construction projects, their acquisition of technology equipment, or otherwise as permitted and allowed by the Constitution and statutes of the State. Such proceeds will, at all times consistent with sound management practices and fiscal prudence and to the extent legally permissible, be expended as expeditiously as is possible and, in any event, prior to the expenditure of any other funds of the State available for such purpose. All such proceeds will, pending their expenditure, be held separate and segregated from other funds of the State and will be subject during such period to investment as allowable by law. The Treasurer of the State will maintain detailed records in accordance with the usual and customary practice of the Treasurer of the State as to such funds, and, in particular, such records will include the disbursements and expenditures of such funds and the investment income allocable to such funds. The Treasurer of the State will make such records available to the Bond Bank;

(f) Take all actions and not omit to take any action within their control and requested by the Bond Bank that is necessary or appropriate to confirm and maintain the tax exempt status of the Bonds; and

(g) Do all things and take all actions reasonably requested by the Bond Bank for the purpose of confirming, securing and documenting the rights of the Bond Bank under the Acquisition Agreement and the rights, status and position of the holders of the Bonds as beneficiaries and assignees of the rights of the Bond Bank thereunder.

Term

The rights and obligations of the parties under and by reason of the Acquisition Agreement extend until such time as all of the Agreements have been paid in full.